

**ISTANBUL TECHNICAL UNIVERSITY ★ INSTITUTE OF SCIENCE ENGINEERING AND  
TECHNOLOGY**

**AN ANALYSIS OF WOMEN ENTREPRENEURSHIP POLICIES AS A TOOL  
FOR REGIONAL DEVELOPMENT IN TRANSITION CONTEXT:  
THE CASE OF AZERBAIJAN**

**M.Sc. THESIS**

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**Department of Urban and Regional Planning**

**Regional Planning Programme**

**JUNE 2015**



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**JUNE 2015**



**İSTANBUL TEKNİK ÜNİVERSİTESİ ★ FEN BİLİMLERİ ENSTİTÜSÜ**

**GEÇİŞ DÖNEMİ EKONOMİLERİNDE BÖLGESEL GELİŞME ARACI  
OLARAK KADIN GİRİŞİMCİLİĞİ POLİTİKALARININ ANALİZİ:  
AZERBAYCAN ÖRNEĞİ**

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*To all the strong ladies out there...*



## **FOREWORD**

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June 2015

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## **ABBREVIATIONS**

|                  |   |
|------------------|---|
| <b>AZN</b>       | : Azerbaijan Manat                                      |
| <b>ANFES</b>     | : Azerbaijan National Fund for Entrepreneurship Support |
| <b>CIS</b>       | : Commonwealth of Independent States                    |
| <b>EBRD</b>      | : European Bank of Reconstruction and Development       |
| <b>EU</b>        | : European Union  |
| <b>FDI</b>       | : Foreign Direct Investment                             |
| <b>GDP</b>       | : Gross Domestic Product                                |
| <b>GRP</b>       | : Gross Regional Product                                |
| <b>IDPs</b>      | : Internally Displaced Persons                          |
| <b>IMF</b>       | : International Monetary Fund                           |
| <b>MOS Model</b> | : Motivations - Opportunity-Skills Model                |
| <b>OECD</b>      | : Organization for Economic Cooperation and Development |
| <b>PPP</b>       | : Purchasing Power Parity                               |
| <b>SMEs</b>      | : Small and Medium Sized Enterprises                    |
| <b>USD</b>       | : US Dollars  |
| <b>UN</b>        | : United Nations  |
| <b>UNICEF</b>    | : United Nations Children's Fund                        |
| <b>WB</b>        | : World Bank  |





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# **AN ANALYSIS OF WOMEN ENTREPRENEURSHIP POLICIES AS A TOOL FOR REGIONAL DEVELOPMENT IN TRANSITION CONTEXT: THE CASE OF AZERBAIJAN**

## **SUMMARY**

The countries in transition found themselves in a specific position trying to adapt to the market economy on one hand, and on the other keeping up with the rest of the world in further adapting to the dynamics created by the forces of globalisation.

For those with rich energy resources, it is even more complex because then they need to add to the mix the need to make sure that the economic activities are diversified enough to avoid adverse effects of volatility in international energy markets while ensuring that the income is fairly distributed, that the private sector is strong enough and that enough jobs are created within the economy. Regional disparities in economic and social development are endemic to these countries and require efficient mobilisation of resources in lagging regions.

Private sector development, and in this regard, supporting entrepreneurship seems to be the way out. However, entrepreneurship policies in these countries need to address the specific conditions of the country including its economic, political and social transformation.

Supporting entrepreneurship and women entrepreneurship in particular has been rising on various governments' agendas. Public policies to this end implement a series of measures in order to reap the benefits of entrepreneurship especially in terms of regional development and job creation.

In this paper, we analyse the public policies for supporting women entrepreneurship in Azerbaijan, their pattern dictated by the transformation process, the mechanism through which government spending on these programs affect job creation, and the impact they have on the economic and social development of the regions.

We find that the focus of general entrepreneurship policies in Azerbaijan shifted from "Opportunity factors" in the period 2004-2008 to "Skills factors" in 2009-2013. For women entrepreneurs, "Motivation factors" seem to be as important as the "Opportunity factors". Improving the legal infrastructure for the business environment is -not surprisingly- a priority for any transition economy. The fact that Motivation is a priority area for women is consistent with the impact of social norms that shape women's attitudes towards entrepreneurship, especially in Azerbaijan, where an important aspect that need factoring in is the societal support for women's entrepreneurial activities, or the lack of it.

Secondly, we find that the government spending on women entrepreneurship policies has an effect on the job creation in the economic regions of the country, through a set of mechanisms which may be different than those in western countries, but consistent with the realities on the ground in Azerbaijan.

Furthermore, we find out that although modest, women's entrepreneurship activities do have a positive effect on the economic and social development of a specific economic region, Ganja-Qazax, of Azerbaijan.

## GEÇİŞ DÖNEMİ EKONOMİLERİNDE BÖLGESEL GELİŞME ARACI OLARAK KADIN GİRİŞİMCİLİĞİ POLİTİKALARININ ANALİZİ: AZERBAYCAN ÖRNEĞİ

### ÖZET

Hazar Denizi etrafındaki eski Sovyetler Birliği'ne bağlı Cumhuriyetler (Azerbaycan, Kazakistan, Türkmenistan ve Özbekistan<sup>1</sup>) geçtiğimiz yüzyılın son onyılında bağımsızlıklarını kazandıklarında bazı sınamalarla başbaşa kaldılar. Bu ülkeler için sınamaların özünde bir ikilem yer almaktaydı: planlı ekonomiden piyasa ekonomisine geçiş ve aynı zamanda ülkenin doğal enerji kaynaklarından kazanılan gelirlerin etkin şekilde idare edilmesi.

Kaynak zengini ülkelerin geçiş dönemi bölgesel gelişme bakımından da bazı sonuçları beraberinde getirmektedir. Bu ülkelerde ekonominin önde gelen sektörü doğal kaynakların işlenmesine dayalı olduğundan, yurtdışından gelen doğrudan yabancı yatırımlar da ülkede kaynakların çıkarılıp işlendiği bölgelerde yoğunlaşmaktadır. Söz konusu sektörlerle ilgili olarak gelişen hizmet, inşaat vs gibi diğer sektörler de yine aynı bölgelerde gelişmektedir.

Geriye kalan bölgeler ise, yabancı yatırım bu sektörlerle yöneldiğinden, içeride de özellikle özel sektörün elinde sermaye birikimi söz konusu olmadığından yatırım sıkıntısıyla karşı karşıya kalmaktadırlar. Bu nedenle, enerji kaynakları bakımından zengin geçiş ekonomilerinde bölgesel farklılıklar kaçınılmaz olarak ortaya çıkmaktadır. Bu da sonuç olarak bu bölgelerden daha zengin bölgelere ve hatta yurtdışına göç dahil olmak üzere bazı sorunları beraberinde getirmektedir.

Bu ekonomiler bakımından bölgeler arası farklılıkların ortadan kaldırılabilmesi için hem ekonomik faaliyetlerin çeşitlendirilmesi hem de bu yönde belirlenen politikaların uygulanmasına imkan sağlayacak kurumların inşası önem kazanmaktadır.

Ekonomik faaliyetlerin çeşitlendirilmesi, gelir dağılımında eşitliği sağlamanın yansıması, genel olarak ülkenin makro-ekonomik göstergelerinin de uluslararası enerji piyasasındaki fiyat dalgalanmalarından etkilenmesinin sınırlı seviyede tutulması bakımından önemlidir. Kurumların inşası ise, öncelikle geçiş sürecinin gerektirdiği demokratikleşme dahil olmak üzere politikaların uygulanmasını sağlaması bakımından resmi kurumları öne çıkarmakta, öte yandan, gayriresmi kurumların da ekonomik aktörlerin yeni sisteme adapte olmasına imkan verecek şekilde dönüşümünü gerekli kılmaktadır. Böylece, ekonomik faaliyetlerin çeşitlendirilmesi ve

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<sup>1</sup> Özbekistan esasen Hazar Denizi'ne kıyısı olmamakla birlikte, bölgedeki eski Sovyetler Birliği'ne bağlı, enerji kaynakları bakımından zengin ülkelerden biridir ([https://energypedia.info/wiki/Uzbekistan\\_Energy\\_Situation](https://energypedia.info/wiki/Uzbekistan_Energy_Situation)).

kurum inşası bölgesel gelişme bakımından geçiş sürecini yaşayan kaynak zengini ülkelerde vazgeçilmez nitelik taşımaktadır.

Bölgesel gelişme bakımından bir diğer unsur ise, büyük ölçekli yatırımın fazla mümkün olmadığı durumlarda girişimcilik faaliyetlerinin desteklenmesidir. Özellikle küçük ve orta ölçekli işletmeler (KOBİler) bu bakımdan geçiş coğrafyasında gelir eşitsizliğinin giderilmesinde üzerinde durulan bir tedbirdir. Nitekim KOBİler, sadece sahipleri için değil, öğretme, deneyimleme ve adaptasyona imkan vererek yerel ekonominin tamamı için önemli bir işlevi yerine getirmektedir.

Geçiş dönemini yaşayan ülkelerde yapılan araştırmalar, KOBİlerin sadece yeni istihdam yaratmakla kalmadığını, aynı zamanda eğitilmiş ancak henüz işsiz kişilerin insan sermayesinin erozyonunu da engellediğini göstermektedir. Nitekim, ülke gelirine oranla yüksek eğitim seviyesi geçiş dönemi ülkelerinde tipik olarak gözlenmektedir.

Bu nedenle, enerji kaynakları bakımından zengin olan geçiş dönemi ülkelerinde girişimcilik faaliyetlerinin ve özellikle KOBİlerin desteklenmesi ülke için kazançlı bir politika adımıdır. Böylelikle, yatırım yapılamayan bölgelerde, insan sermayesi dahil olmak üzere yerel kaynakların kullanımına imkan yaratılmakta ve bölgelerarası farklılıkların giderilmesi yönünde katkı sağlanmaktadır.

Bu noktada, kadın girişimciliğinin üzerinde bilhassa durulması gerekmektedir. Nitekim, geçiş sürecinden erkeklere nazaran biraz daha olumsuz etkilenen kadınlar bu ülkelerde tipik olarak sahip bulundukları eğitim düzeyiyle önemli bir insan sermayesi kaynağı teşkil etmektedirler. Geçiş döneminin başlamasıyla beraber devlet tarafından sağlanan eğitim, sağlık gibi sosyal hizmetlerin sektöre uğraması, hem ailede çocuk, yaşlı ve engellilerin bakımından sorumlu oldukları için hem de önceki dönemde daha ziyade kamu hizmeti sektöründe istihdam edilmiş olmalarından dolayı kadınlar üzerinde daha sert etki yaratmıştır. Kadınlar, yeni dönemde de hem özel sektörde ve bilhassa yüksek ücret ödenen sektörlerde, yeterince temsil edilememekte, hem de girişimciler arasında da fazla varlık gösterememektedirler. Oysa, kadınların ekonomik olarak desteklenmesinin genel olarak toplulukların refah düzeyi üzerinde daha fazla iyileştirici etkisinin bulunduğu, çünkü kadınların gelirlerinin erkeklere göre daha büyük kısmını aileleri için harcadıkları çeşitli çalışmalarla ortaya konulmuştur.

Bu tezde, geçiş dönemi bağlamında kadınların girişimcilik faaliyetleri ile bulundukları bölgelerdeki sosyal ve ekonomik kalkınma arasındaki ilişkinin yansıması, devletlerin politika kararlarının tüm bu ilişkiyi nasıl etkilediği Azerbaycan örneğinde ele alınacaktır.

24 yıl önce bağımsızlığını yeniden kazanmasıyla planlı ekonomiden piyasa ekonomisine geçiş süreci yaşayan, öte yandan ekonomisi büyük oranda enerji sektörüne dayalı olan Azerbaycan bu tezin konusu için iyi bir çalışma alanı teşkil etmektedir. Nitekim ülke, 1994 yılında imzaladığı "Yüzyılın Anlaşması" olarak adlandırılan uluslararası anlaşmayla enerji sektörünü yabancı yatırıma açmış ve yüksek düzeyde yabancı yatırım çekmiştir. Yabancı yatırımdan ve enerji kaynaklarından elde edilen gelirin yanlış yönetilmesiyle ekonomiyi geriye götüren "petrol laneti"ni (veya Hollanda hastalığı - Dutch disease) uyguladığı büyük oranda başarılı politikalar sayesinde tecrübe etmemiş olan Azerbaycan'da, petrol ve gaz gelirlerinin ülke ekonomisindeki payı azalmakta olsa da ekonomik faaliyetlerin çeşitlendirilmesi halen önemli bir gereklilik olarak ön planda tutulmaktadır.



Ülkede özel sektör de güçlenmektedir, ancak küçük girişimciliğin ekonomideki payı henüz mütevazidir. Öte yandan kadınlar, ülke nüfusunun kabaca yarısını teşkil etseler de girişimcilik faaliyetleri bakımından yeterince varlık gösterememektedirler. Azerbaycan hükümeti, genel olarak girişimciliği, özel olarak da kadın girişimciliğini giderek artan seviyede destekleyen politikalar yürütmektedir. Devlet aynı zamanda, 2004 yılında alınan bir kararla, enerji sektörünün geliştiği başkent Bakü dışındaki bölgeleri belli özelliklerine göre 10 ekonomik bölgeye ayırmış ve bunların sosyo-ekonomik kalkınmaları için şimdiye kadar beş yıllık üç devlet programını yürürlüğe koymuştur.

Çalışmamızın başında iki hipotez ortaya koymaktayız. Bunlar,

H1: Geçiş dönemi ülkelerinde bölgesel kalkınma aracı olarak girişimcilğe yönelik politika destekleri potansiyel girişimciler için "Fırsat faktörlerine" yoğunlaşır.

H2: Kadın girişimciliğini desteklemek için yapılan devlet harcamaları, bölgesel düzeyde sosyal ve ekonomik gelişme bakımından (istihdam yaratma, ailenin gelirinin artması, bölge ekonomisine dışardan gelir sağlanması, kadınların hayatlarında olumlu yönde değişiklik gibi) olumlu sonuçlar verecektir.

Birinci hipotezi test etmek için öncelikle Azerbaycan'ın bölgesel kalkınma stratejilerini belirleyen belgeleri üzerinde bir içerik analizi yapılmış, bunun sonucunda uygulandığı belirlenen politikalar MOS (Motivasyon-Fırsat-Yetenek) Modeli çerçevesine oturtularak hangi yöndeki politikaların öne çıktığı irdelenmiştir.

Buna göre, yukarıda bahsedilen üç döneme yayılan bölgesel gelişme programları içerik analiziyle incelenmiş ve 2004-2008 yıllarını kapsayan dönemde girişimciliğin istihdam yaratma rolü bakımından, 2009-2013 yıllarını kapsayan ikinci dönemde ekonominin çeşitlendirilmesi bakımından, 2014-2018 dönemi için ise ihracata yönelik yüksek kaliteli ve rekabetçi ürünlerin üretimi bakımından ön plana çıkarıldığı anlaşılmıştır. Öte yandan, kadın girişimciliğine sadece 2014-2018 döneminin Faaliyet Planı'nda dezavantajlı gruplar arasında yer verildiği görülmüştür.

Birinci hipotezin analizinin ikinci bölümünde MOS Modeli Azerbaycan için uygulandığında, genel girişimcilik politikaları 2004-2008 döneminde Fırsat faktörlerine yönelikken, 2009-2013 döneminde bunların Yetenek faktörlerine yoğunlaştığı görülmektedir. Kadın girişimciler bakımından ise daha ziyade Motivasyon faktörleri üzerinde durulduğu ortaya çıkmaktadır. Bu durumda, genel olarak girişimcilik politikaları bakımından birinci hipotez kabul edilebilecekken, kadınlar bakımından bu hipotez geçerli değildir. Nitekim, Fırsat faktörlerinin genel girişimcilik için alınan tedbirler çerçevesinde karşılandığı düşünülürse, kadınların ayrıca Motivasyon faktörlerine ihtiyaç duymaları kendi içinde tutarlı sayılabilir. Çünkü, esasen insan sermayesi düzeyi yüksek olan kadınlar eğitim bakımından çok fazla eksiklik yaşamamaktadır. Ancak, Azerbaycan'da kadının rolünü daha ziyade ev sınırları içinde belirleyen toplumsal değerler gözönüne alındığında sözkonusu biçimsel olmayan (informel) kurumların kadınlar üzerindeki etkilerinin bertaraf edilmesi Motivasyon faktörlerinin güçlendirilmesine yönelik faaliyetlerle mümkün olabilecektir.

İkinci hipotez için öncelikle, bu çalışma içinde geliştirdiğimiz, yetenekli işgücü göçü modelinden esinlenerek oluşturulan deneysel bir modelleme kullanılmaktadır. Buna göre, kadın girişimciliğine yönelik devlet programları için yapılan kamu harcamaları, kadın girişimci sayısını ve buna bağlı olarak istihdamı arttırmaktadır. Ancak, sözkonusu kamu harcamaları ile istihdam arasındaki ilişki kadınların işsiz olmaları

durumunda kendilerine saęlanan devlet yardımları, iş kurma maliyeti, iş kurmaları halinde ödeyecekleri vergiler ve ülke genelindeki benzer girişimcilerin istihdam yaratma potansiyeli gibi faktörlerce etkilenmektedir. Söz konusu modelin Azerbaycan'da münferit bölgeler bakımından olmasa da "ekonomik bölgeler" in tamamı bir bütün olarak ele alındığında kadın girişimcilięi için yapılan harcamalar baz alınarak uygulanmasıyla, yapılan kamu harcamalarının istihdam yaratmada etkili olduęu görölmüştür. Böylece ikinci hipotezin Azerbaycan'da genel olarak ekonomik bölgeler düzeyinde kabul edilebileceęi söylenebilir.

Bölgesel düzeyde ise, kadın girişimcilięinin görece yüksek olduęu Gence-Kazak ekonomik bölgesinde faaliyet gösteren ve devlet desteklerinden faydalanmış olan kadın girişimcilerle yapılan anket çalışması yol gösterici olmuştur. Söz konusu kadın girişimciler, fırsat girişimcilięinin özelliklerini göstermekle birlikte (girişimci olma sebepleri ailelerini geçindirmekten ziyade kendi kararlarını alabilme isteęi), bölgenin ekonomik ve sosyal gelişimine katkı sağladıkları görölmektedir. Dolayısıyla ikinci hipotez münferit bölge düzeyinde de kabul edilebilmektedir.

Dolayısıyla, kadınların girişimcilik faaliyetlerinin desteklenmesi bölgesel düzeyde insan sermayesini ve dięer yerel kaynakları harekete geçirerek içsel büyüme dinamikleri aracılığıyla bölgelerin ekonomik ve sosyal kalkınmasına katkı sağlamaktadır. Nitekim, kadın girişimcilerin yarattıkları istihdam, aileleri için yaptıkları harcamalar ve dış pazarlara erişim yoluyla bölgeye kazandırdıkları gelir buna işaret etmektedir. Bununla birlikte, bu yönde yapılan kamu harcamalarının ve yürütölen programların bölgelerin ve toplulukların ihtiyaçlarının gözönünde bulundurularak yapılması ayrıca önem arz etmektedir.





## **1. INTRODUCTION: Problem Definition and Purpose of Thesis**

The subject of this study is the women entrepreneurship support measures and policies used as a tool for promoting regional development in a transition context, focusing on the case of Azerbaijan. It is presented that pursuing public policies to support entrepreneurship in general and women entrepreneurship in particular is crucial in promoting diversification of the economic activities in the country, creating employment and ensuring inclusive economic and social development at the regional level. The need to tailor the policies in accordance with the needs of the latent entrepreneurs is highlighted.

When the former Soviet Republics around the Caspian Sea (Azerbaijan, Kazakhstan, Turkmenistan *and Uzbekistan*<sup>2</sup>) gained their independence in the last decade of the 20th century, they were faced with a number of challenges. The essence of the challenge was a duality: the transition and the oil boom i.e. the challenge of managing transition from plan to market as well as managing the country's natural resources. Moreover, the transition was not only passing from central planning to a market based economy; it meant a more complex and multi-dimensional transformation in economic, political and social terms (Xheneti&Smallbone, 2008), which required an overhaul of all the formal and informal institutions.

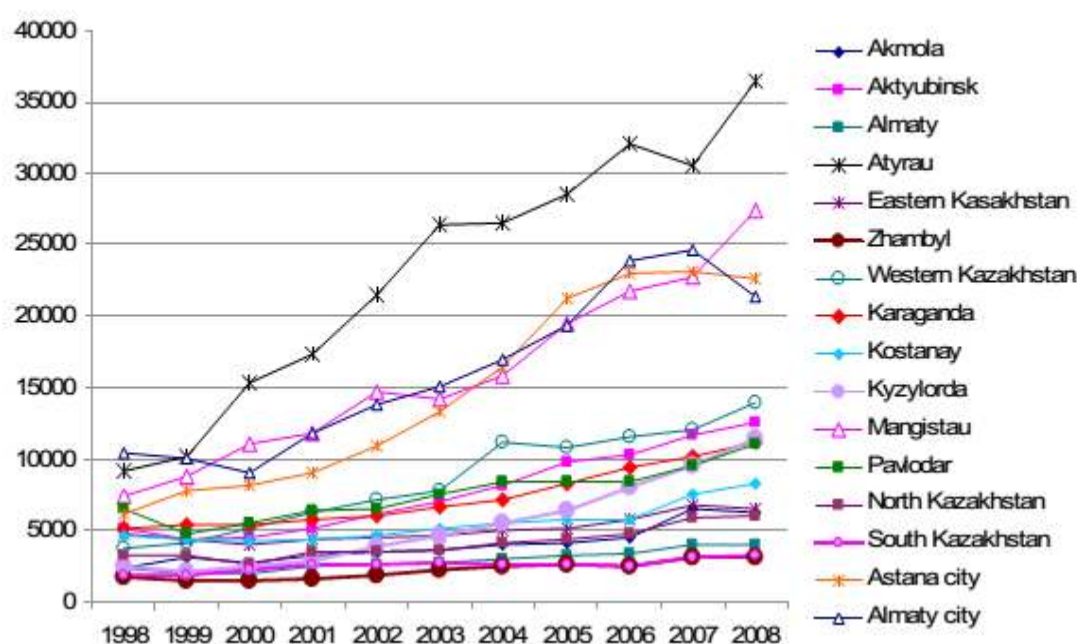
The transition process of a resource-rich country has implications in terms of regional development. In these countries, since the leading economic sector is the extraction of natural resources, the investment which is mostly foreign direct investment (FDI) is also concentrated in the regions of the country where the natural resources are extracted. The other sectors such as services and construction which develop as a result of the spillover of the riches from the hydrocarbon sectors are also mainly concentrated in locations in the same region.

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<sup>2</sup> Although Uzbekistan does not have a coast on the Caspian Sea, it is one of the resource-rich countries in the region which was also a member of the former Soviet Union ([https://energypedia.info/wiki/Uzbekistan\\_Energy\\_Situation](https://energypedia.info/wiki/Uzbekistan_Energy_Situation))

The remainder of the regions, on the other hand, suffer from lack of investment because the FDI is channelled to the hydrocarbon sectors. Additionally, in terms of domestic investment, typically there is not much accumulated private capital in the country to begin with, as the country has just emerged out of the centrally planned economy where private property ownership, thus surplus capital at the hands of private sector was out of question. Therefore, in resource-rich transition countries, regional disparities become unavoidable which in turn cause other problems including migration from these lagging regions to the richer regions or other countries.

The case of Kazakhstan, another resource-rich transition economy in Central Asia, is a good example of gross regional products (GRP) per capita significantly differing across the regions of the country (**Figure 1.1**). By 2009, two regions (Atyrau and Mangistau) on the shore of the Caspian Sea, where the most of the country's crude oil was extracted, had the highest GRP per capita, along with the two big commercial centres Astana and Almaty, the current and former capital cities respectively. The other regions lag behind (Ursulenko, 2010).



**Figure 1.1 :** Trends in GRP per capita in regions of Kazakhstan, USD, PPP (as in Ursulenko, 2010)

In order to eliminate the disparities between the regions, two main measures gain importance: the diversification of economic activities, and institution building.

Without the diversification of their economy, countries risk harming their income distribution, and inefficient use of other resources of the country, including human capital. Diversification of economic activities was even more important for resource-rich transition economies, for they had to balance on the tightrope of exploiting their resources efficiently to strengthen other sectors of the economy while trying to avoid the so called "Dutch disease" or "oil curse". Dutch disease is a phrase referring to the economic crisis in the Netherlands in 1960s following the discovery of North Sea natural gas. As Financial Times puts it:

“Dutch disease is the negative impact on an economy of anything that gives rise to a sharp inflow of foreign currency, such as the discovery of large oil reserves. The currency inflows lead to currency appreciation, making the country’s other products less price competitive on the export market. It also leads to higher levels of cheap imports and can lead to deindustrialisation as industries apart from resource exploitation are moved to cheaper locations” (FT, 2015).

On the other hand, relying too much on hydrocarbon reserves also leads to instability in macro-economic indicators, parallel to the volatility of prices of the commodity (oil, gas, etc.) in the international markets.

Institution building, on the other hand, is important because formal institutions are needed in a transition economy to implement the policies which enable the transition process itself. Furthermore, in order to be able to compete economically in the international system, certain representative and market institutions are needed, i.e. the institutions consistent with a democratic political system, a market economy, and free trade (Grzymala-Busse&Jones Luong, 2002). Moreover, the transformation of informal institutions also have an effect on the adaptability of the economic actors to the new economic system.

Therefore, we can say that diversification of economic activities and building institutions to extend the outreach of economic policies are crucial measures for rendering all regions of the country economically active, eliminating regional disparities.

The lack of investment means that employment possibilities are slim for the population of the regions, leading to further income inequalities. Although a privatisation process occurs in the transition countries, priority was given to the large enterprises which were held by the government previously, which did not necessarily create new jobs. Moreover, with privatisation and abandoning of control over the

wages, and social services unequally used by different segments of the society, an unequal distribution of income and well-being occurred (Milanovic, 1999), (Milanovic&Ersado, 2010). This was especially the case in the countries of the Caucasus and Central Asia (Falkingham, 2004), (Fox 2003).

A set of measures emerged as a way of alleviating the burden of unequal income distribution across the transition geography. One efficient way has been the creation of small and medium enterprises (SMEs). Aidis and Sauka (2005) argue that in fact, SMEs are of special importance to transition countries for a number of reasons. The most important of these reasons is that SMEs are able to provide economic benefits not only to their owners (entrepreneurs), but also to the whole economy which is enabled to learn, experiment and adapt through the SMEs.

Moreover, "research in transition countries shows, that even if SMEs do not generate net new jobs, they reduce the erosion of human capital by providing alternative employment opportunities for relatively skilled yet unemployed workers" (EBRD, 1995). The cause being, one of the distinguishing characteristics of transitional economies is the high human capital at the starting point relative to GDP per capita (Spagat, 2005). Educational levels, in particular, are as high or even higher than those in many developed countries (Manolova et al., 2007).

Therefore, building proper institutions to support entrepreneurship, especially SMEs, pays back. According to Ayyagari et al. (2011) as part of a World Bank Policy Research Working Paper, SMEs make up more than 95 percent of the enterprises across the world, accounting for 60 percent of private sector employment. In the European Union, by 2012 numbers, micro, small and medium sized enterprises make up 99.8 percent of all enterprises, creating 67.4 percent of the employment, and generating 58.1 percent of the total gross value added (Wyemenga et al., 2012).

In resource-rich transition countries entrepreneurship is an efficient way of diversifying the economic activities, mobilising local resources at regional level, leading to creating employment, retaining human capital, and thus they help the elimination of regional disparities within the country in terms of socio-economic development.

At this point, women entrepreneurs also need special attention, because women are an indispensable source of human capital, and their well-being in the transition



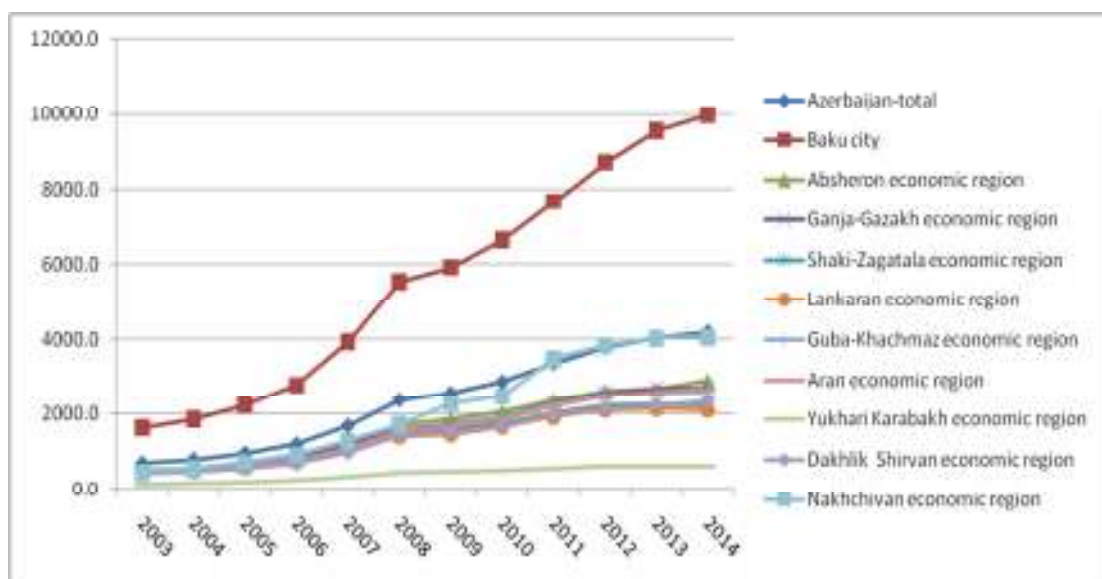
process has been dented in a few different ways. First of all, in the previous system of a state-planned economy, women in transitional countries were mostly concentrated in state-run sectors. This meant that with the transition process, their salaries decreased considerably, especially for those working in education, health care and social services (Jovanovic&Lokshin, 2004). Secondly, the reduced government spending on social services, health care and education meant that women were hit harder in the transition process because they are often responsible for the care of children, the elderly and the disabled (Habibov, 2010a). Moreover, in the current system, women are underrepresented in the private sector, and especially in higher-paid private businesses where they do not show strong presence anyway, they still earn a significantly lower wage than men. They are also under-represented among private entrepreneurs (Habibov, 2010a). However, studies show that empowering women actually helps the socio-economic development of the wider society, especially at the basic level of poverty-alleviation, since women have been shown to spend more of their income on their households. Therefore, when women get help in increasing their incomes, the welfare of the whole family improves (Cheston&Kuhn, 2002).

In this thesis, the purpose is to see, in a transition context, the link between women's entrepreneurial activities and the economic and social development of the region they live in, and how policy decisions can affect the whole process. Therefore, the nature of entrepreneurship, women's entrepreneurship, women as an indispensable source of human capital, the policy priorities to mobilize women's potential in different contexts including transition from a centrally planned economy to a market economy and the interplay between these variables will be put forth in this study.

The case of Azerbaijan is examined in this thesis as this country has been a laboratory for regional development studies with the transition and transformation processes it has been going through in political, economic and social terms in its 24-year history of independence. It is a resource-rich transition economy with admitted disparities among its regions (**Figure 1.2**).

When Azerbaijan newly gained its independence, the country's centrally planned economy mostly relied on oil production, and following an international agreement in 1994, the country experienced a strong investment boom, but managed to avoid the "Dutch disease". The country still relies on oil and gas receipts for its budget

revenues and exports. Although the share of oil rents in the country's GDP is decreasing, the need to diversify its economy is still a pressing issue. The private sector in the country is also gaining strength accounting for four fifths of its GDP.



**Figure 1.2:** Trends in income per capita of the regions in Azerbaijan, in manats

However, the share of small entrepreneurship is still modest in the overall economy and in the non-oil sector. Women, on the other hand, are underrepresented in the entrepreneurship sector, despite their high education levels and not reflecting their share of the population around 50 per cent. Its government has increased its efforts to promote women entrepreneurship as it links them to development, poverty reduction, provision of employment and in many cases, elimination of gender inequality in society, especially in the socio-economic development of the "economic regions".

In 2004, with a Presidential Decree, the government of Azerbaijan established 10 "economic regions" apart from the capital city Baku, where the oil and gas are extracted and processed. The government of Azerbaijan based this decision on a few considerations, one of which is:

"disproportionate distribution of factors of production created dramatic differences between the regions in terms of their level of socio-economic development. Therefore, concentration of economic infrastructure, especially that of industry in Baku resulted in faster development of Baku in comparison to other regions, and this caused the worsening of socio-economic situation in other regions and eventual influx of population from other regions to Baku."

Moreover, although there is vast literature on entrepreneurship, women entrepreneurship, transition economies, policy measures, etc., the literature on

Azerbaijan is still limited. It is expected that the results of this study will contribute to the enrichment of the studies in relation to Azerbaijan by creating awareness and providing a guide to the political, economic, social and cultural dynamics in this country.

One of the methods of analysis ("the formulation") employed in this study is also thought to be exploratory and open to further development by those interested in the process through which certain policy measures for supporting women entrepreneurship have an impact on the desired outcomes.



## **2. THEORY, CONCEPT AND METHODOLOGY**

### **2.1 Theoretical framework**

When it comes to women entrepreneurship in transition context, more than one theory seems to be relevant depending on the way we look at the dynamics determining the interplay between entrepreneurship, public policies, market economy, development and female empowerment. The wide palette of theories is due to the interdisciplinary nature of the issue at hand. Among the theories, we will focus on endogenous growth and institutionalist theories with a focus on human capital.

#### **2.1.1 Endogenous growth theory and human capital**

In the 1950s and 1960s, within advanced economies, the term human capital was considered to be based on the analysis of worker know-how and skills with a microeconomic focus on an individual's behaviour. During this time the non-spatial analysis focused on the gain in investing in education as education was the only reliable measure of human capital. For explicitly spatial analysis, on the other hand, human capital-migration was the focus. In the late 1980s came a change of understanding with "new growth theory" which reassessed the links between human capital and aggregate economic development, and from this came a revision of the links between labour migration and local economic growth (Faggian&McCann, 2009).

Romer (1986, 1990, 1994) pointed out that the technological progress can be endogenised in the production function so that the total output is in fact the product of three (as opposed to only Labour (L) and Capital (K) in the neoclassical framework) inputs. This was expressed as

$$Y = K^{\alpha} L^{1-\alpha} \mathbf{K}^{\beta} \quad (1.1)$$

where  $K$  and  $L$  are the inputs used by the single firm, with diminishing returns to scale, and  $\mathbf{K}$  is the aggregate stock of capital, which is equal to  $nK$  where  $n$  is the total number of firms. In which case, if  $\beta$  proves to be significantly higher than zero, then the production function has increasing returns to scales. This new theory underlined the possibility of introducing an endogenous source of growth in a simple classical model within the perfect competition framework. Lucas (1988) identified human capital as a possible explanation for endogenous growth. Lucas (1988) developed a model demonstrating that a higher level of human capital allows the economy to grow faster and the inputs to be better paid, as long as positive externalities are associated with the average level of human capital.

### **Human capital**

Becker's (1964) original definition of human capital referred to education and on-the-job training, which was the case until the 1990s. But the emergence of new growth theories in the late 1980s resulted in widening of the concept because the studies of late 1980s put a special emphasis on knowledge spillovers and human capital for their influence on economic growth (Faggian, 2005). During the early 1990s the physical or natural health and ability of an individual that was considered to improve their acquisition of knowledge and skills was initially included to this. The idea of “creative capital” was later introduced in the early 2000s by Florida (2002).

This was actually in line with Putnam's (1993) argument that the learning environment was actually socially constructed. McCann (2007) points out that the blurred concept actually led to wider confusion in literature. The need to redefine and distinguish between the concepts of human capital, creative capital and social capital in order to allow clearer public policy considerations is also widely acknowledged. In theory, there is also a distinction made between “general” human capital, which is represented by the individual's overall educational level, and “specific” human capital, a benefit from experience in a particular domain of socioeconomic activity (Becker, 1993).

Evidence from various countries suggest that the role and mobility of human capital is increasingly determining the regional performance. The role of regions in national economies has changed significantly since the 1970s. This has largely been a result

of globalization and structural change and adjustment (Stimson, Robson & Shyy, 2009). In transition economies, of course the rise of regions is a more recent concept.

The links between human capital and regional economic development may not necessarily be determined by the same dynamics as in the relationship between human capital and economic development at the national level. Because, the human capital affects the regional parameters via *the externalities associated with it*, emanating from the national level dynamics (Faggian&McCann, 2009), possibly through targeted public policies.

The increasing focus on endogenous factors bring forward issues such as including diversity of economic activities in the region, population size and levels of human capital. There is a growing interest in investigating the influence of human capital as an endogenous factor in trying to model the economic performance of the regions. For example, an empirical analysis by Draca et al. (2003) in Australia shows that levels of education, skills and qualifications explain between 10 per cent and 20 per cent of the variation among the states in gross state product in Victoria, Queensland and South Australia.

The focus has shifted from exogenous factors to endogenous factors within the evolution of theories on regional economic growth and development (Stimson, Robson&Shyy, 2009). The Solow (1956) model formed the basis for most of the traditional regional economic development approaches which were embedded in neoclassical economic exogenous growth theory. Romer's (1986) founded the endogenous growth theory, also known as new growth theory, which has been intensively studied since his seminal paper on the subject. Solow (1956), Cass (1965) and Koopmans (1965) can all be said to have founded the other major growth theory, exogenous growth theory during the economic growth theory's first main period of interest.

Endogenous growth theory does not have a single version but has many variations. For example Lucas's (1985) 'new classical' version and Romer's (1986) competitive equilibrium model are a few leading examples. The affect of policy measures on the long-run growth rate of an economy are common key features of the endogenous growth theory. Human capital, new technology and higher savings and/or investment levels are seen to achieve this, which increase returns to scale and thus divergence in

economic performance of the regions. Rees (2001) points out that technology-based theories of regional economic development need to incorporate the role of entrepreneurship and leadership, particularly as factors in the endogenous growth of regions.

In a new model framework proposed by Stimson et al. (2005), a set of endogenous factors are explicitly incorporated as intervening variables and the hypothesis of the model is based on their catalytic impact on regional endogenous economic growth and development process. These endogenous factors include leadership and institutions which may interact to facilitate or suppress entrepreneurship. Thus, institutions which are an outcome of public policy, and entrepreneurship are considered among the endogenous growth factors.

Endogenous forces are seen as now being of higher importance in determining a region's economic performance than that of exogenous forces. The rapidly changing and increasingly competitive global environment now calls for regional economic development policy initiatives to lean more towards measures that enhance the local capacity and capability of a region or city to develop, and cope with this rapid change (Stimson, Robson & Shyy, 2009). Well-being and regional productivity may be linked to the level of human capital as empirical research carried out in Australia by the Bureau of Transport and Regional Economics (2004) shows. They show that there *are* complex links between labour quality and productivity, education, and regional growth.

Since there is no solid consensus on the definition of human capital, measuring its effect on the endogenous economic growth and development also poses a challenge. In order to address the challenge, especially in the regional context, Stimson et al. (2005) suggested taking a proxy measure which is the employment scale weighted location quotient over time, standardized by the size of the region's labour force, to be used as the dependent variable in a model of regional endogenous economic growth and development.

### **Women entrepreneurship as a source of human capital**

Lerner, Brush, & Hisrich (1997) provide evidence that gender differences in entrepreneurial performance can be explained by the notion that women have fewer resources as compared to male entrepreneurs and, therefore, lack important



prerequisites to achieve success. This gap may be explained by different role expectations for men and women which depends on the cultural context.

A review of literature on gender differences in human capital of entrepreneurs by Rosenbusch et al. (2009) reveals that empirical evidence on this issue is mixed, in that a number of studies report that women entrepreneurs have less experience in terms of work, management and self-employment, while other studies find that women entrepreneurs have similar amounts or even more education than male entrepreneurs.

Therefore, women entrepreneurs, especially in the transition countries may not be disadvantageous when general human capital, i.e. education level is considered. However, specific human capital may change depending on the cultural and social context of the country.

### **2.1.2 Institutional theory**

The concept of the 'institution' refers to the 'the rules of the game in a society' (North, 1990), which when stable can assist in reducing uncertainty and risk for individual behaviour, as well as the transaction costs connected with conducting entrepreneurial activity. These rules include 'formal' institutions, such as the constitutional, legal and organisational framework for individual actions, but also 'informal institutions', which refers to culturally transmitted codes of conduct, values and norms (North, 1990). Informal institutions embrace uncoded attitudes, which are embedded in a society, and which act as regulators on individual behaviour (Smallbone&Welter, 2012).

Institutions are important in understanding the transformation that the post-socialist countries are going through, and especially the people's attitude towards entrepreneurial activities. According to institutional theory, institutions are constraints that guide human interaction (North, 1990). They not only provide a framework for human interaction, but also define what kind of behaviour is acceptable (Xheneti&Smallbone, 2008).

The new institutional theory draws attention to the relation between the formal organisations and the social and cultural values. One of the prominent theorists on

organisational behaviour, Powell (2007) argues the following in his essay on “The New Institutionalism”:

“This new orientation proposed that formal organizational structure reflected not only technical demands and resource dependencies, but was also shaped by institutional forces, including rational myths, knowledge legitimated through the educational system and by the professions, public opinion, and the law. The core idea that organizations are deeply embedded in social and political environments suggested that organizational practices and structures are often either reflections of or responses to rules, beliefs, and conventions built into the wider environment (Powell, 2007:1).”

For the purposes of this study, values, norms, and the general attitude of a society will be referred to as informal institutions.

The state can also influence entrepreneurial behaviour through the creation of an efficient business regulatory framework and consistent policies that will lower barriers to entry into business (Xheneti&Smallbone, 2008).

Smallbone and Welter (2001) argue that SME development depends upon the creation of institutions and organisations on three levels: macro, meso and micro. The macro level is concerned with the design and creation of national institutions and organisations that are responsible for SME policy. The meso level concentrates on the efforts that governments undertake to create firstly, a financial infrastructure that is supportive and facilitates the development of the small business sector; and secondly, a legal and regulatory framework that is conducive to business growth. At the micro level, the role of the state is first, to create the conditions in which a network of business support organisations can develop; and second, to develop a governance framework which enables policy actions to be shaped by regional needs.

EBRD’s Transition Report (2013) also emphasizes the role of economic (and political) institutions in a country’s long-term growth. According to EBRD’s research, “countries with a stronger institutional environment – effective rule of law, a good business climate, more secure property rights and market-friendly social norms – are better positioned to attract investment, to participate in trade and to utilise physical and human capital more efficiently (p:39)”.

Therefore, the formal institutions which are indispensable instruments to implement the policies of the government do not suffice on their own. A change in the informal institutions in the society also need to adapt to the new realities of the political and

economic context. Especially in the case of women entrepreneurs, the outreach of government institutions is important, but equally important is the attitude of the society towards entrepreneurial opportunities for women.

## **2.2 Conceptual Framework**

### **2.2.1 Definition of Entrepreneurship**

Finding a single definition for entrepreneurship in the literature has been an elusive goal. In different periods, different aspects of entrepreneurship and entrepreneur have been highlighted (**Table 2.1**). The word entrepreneur was used for the first time by French economist Richard Cantillon in 1725 where he said that an entrepreneur is a person who pays a certain price for a product to resell it at an uncertain price, thereby making decisions about obtaining and using the resources while consequently admitting the risk of enterprise (Cantillon, 1755/1931)

After Cantillon, other scholars made various attempts at defining entrepreneurship by putting other aspects of entrepreneurial activity under the limelight. For some of them, it was still the uncertainty factor thus willingness to take risks which was important (Knight, 1921), (Von Mises, 1949/1996), (Shapiro, 1975). Others saw exploiting opportunities as a distinguishing property for entrepreneurs (Penrose, 1959/1980), (Kirzner, 1973), (Shane & Venkataraman, 2000), (Ireland, Hitt, & Sirmon, 2003). It was Schumpeter in 1934 who introduced the concept of innovation to the definition of entrepreneurship, saying that the entrepreneur is the innovator who implements change within markets through carrying out new combinations involving a new product, method of production, market, inputs or even organization of an industry (Schumpeter, 1934). His approach was endorsed in works by later economists like Drucker (1985) and Lumpkin & Dess (1996).

Today, taking into account all the previous work by scholars, international organizations have come up with hybrid definitions. Commission of the European Communities (2003) says that “entrepreneurship is the mindset and process to create and develop economic activity by blending risk-taking, creativity and/or innovation with sound management, within a new or existing organisation. And, Organization for Economic Cooperation and Development came up with the following definition for its own purposes: Entrepreneurs are those persons (business owners) who seek to

generate value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets.

**Table 2.1:** Definitions of entrepreneurship.

| Entrepreneur as risk taker   | Entrepreneur as opportunity seeker   | Entrepreneur as innovator  |
|--|--|--|
| <p>Entrepreneurs attempt to predict and act upon change within markets. The entrepreneur bears the uncertainty of market dynamics.<br/>(Knight, 1921)</p> <p>The entrepreneur is always a speculator. He deals with the uncertain conditions of the future. His success or failure depends on the correctness of his anticipation of uncertain events. If he fails in his understanding of things to come he is doomed...<br/>(von Mises, 1949/1996)</p> <p>Entrepreneurs take initiative, accept risk of failure and have an internal locus of control. (Shapero, 1975)</p> | <p>Entrepreneurial activity involves identifying opportunities within the economic system. (Penrose, 1959/1980)</p> <p>The entrepreneur recognises and acts upon profit opportunities, essentially an arbitrageur.<br/>(Kirzner, 1973)</p> <p>The field of entrepreneurship involves the study of sources of opportunities; the processes of discovery, evaluation, and exploitation of opportunities; and the set of individuals who discover, evaluate, and exploit them.<br/>(Shane &amp; Venkataraman, 2000)</p> <p>Entrepreneurship is a context dependent social process through which individuals and teams create wealth by bringing together unique packages of resources to exploit marketplace opportunities.<br/>(Ireland, Hitt, &amp; Sirmon, 2003)</p> | <p>The entrepreneur is the innovator who implements change within markets through the carrying out of new combinations. These can take several forms:</p> <ul style="list-style-type: none"> <li>- the introduction of a new good or quality thereof,</li> <li>- the introduction of a new method of production,</li> <li>- the opening of a new market,</li> <li>- the conquest of a new source of supply of new materials or parts, and</li> <li>- the carrying out of the new organisation of any industry.</li> </ul> <p>(Schumpeter, 1934)</p> <p>Entrepreneurship is the act of innovation involving endowing existing resources with new wealth-producing capacity.<br/>(Drucker, 1985)</p> <p>The essential act of entrepreneurship is new entry. New entry can be accomplished by entering new or established markets with new or existing goods or services. New entry is the act of launching a new venture, either by a start-up firm, through an existing firm, or via „internal corporate venturing“.<br/>(Lumpkin &amp; Dess, 1996)</p> |

Furthermore, entrepreneurs are categorized under two headings according to the conditions under which they enter into business: necessity-driven entrepreneurship and opportunity-driven entrepreneurship. People undertake necessity entrepreneurship when there are few, if any, other options for finding suitable work. On the other hand, people undertake opportunity entrepreneurship when they perceive an opportunity in the market, which can include underserved, poorly served, or newly emerging niches (Lippmann, Davis&Aldrich, 2005).

### **2.2.2 Women entrepreneurs**

Although definitions of entrepreneurship are made universally and in principle should apply to women, there is a widening literature (Marlow, Henry & Carter, 2009) on women entrepreneurs suggesting that they have certain characteristics. A review of the literature on women entrepreneurs yield the following results:

- Women entrepreneurs are relatively younger; they tend to start businesses in retailing and services industries; they don't have working experience, training or business experience from before; and they want to start a business to avoid the "glass ceiling" in other working environments (Carter, Anderson & Shaw, 2003), (Terjesen & Amorós, 2010);
- Women are more likely to locate their ventures in lower order services while their businesses remain small scaled; women entrepreneurs tend to work from home and part-time, have less funding available to them and they use informal or more expensive sources of finance and rely on limited business networks (Marlow, Henry&Carter, 2009), (de Bruin, Brush&Welter, 2007);
- Women entrepreneurs are less likely than male entrepreneurs to express high growth intentions on average (Hughes et al., 2012);
- Women cite financial success as one of the many reasons (such as flexible working hours, ability to balance work and home responsibilities, self achievement, work satisfaction) to achieve growth, while for men financial success is the main reason for their desire to grow their new ventures (Brush&Cooper, 2012), (Parker, 2009);
- Women respond more strongly to greater incentives to gain additional income when there are lower levels of state provided services, such as education and health (Estrin & Mickiewicz, 2011);

- Women entrepreneurs tend to earn less than both salaried women and self-employed men as they dedicate less time to planning and developing their businesses than they do to their domestic responsibilities (Hundley, 2001);
- Women have more difficulties in raising capital at their start-up phase (Carter et al., 2003) However, larger starting capital could mean more earnings for them (Hundley, 2001);
- Women entrepreneurs may not be sufficiently empowered or supported to allow them to contribute to new business start-ups. The reasons may include cultural and societal attitudes and access to resources and opportunities (GEM, 2012).

### **2.2.3 Development and regional development: entrepreneurship / women entrepreneurship**

Entrepreneurship has been in the limelight of economic theory as it is increasingly recognised that entrepreneurship plays a critical role in economic growth. Unlike traditional growth theory where technology and innovation were regarded as exogenous forces affecting growth, endogenous growth theory assumes that innovation and entrepreneurship are endogenous forces that are driven by various actors in the economic systems and that they can be influenced by the decisions of the public policy makers (Fischer&Nijkamp, 2009).

The impacts of entrepreneurship on economic development, especially within societies that have well defined rules and/or policies, see entrepreneurial acts channelled towards productive uses and positively affect economic development (Xheneti&Smallbone, 2008). In a study by Ayyagari et al. (2011) SMEs created 92.5 percent of the jobs in 85 countries with net job creation in 2006-2010 period. According to the same study, in Azerbaijan in 2009, enterprises with less than 100 employees created almost 30 percent of the jobs in the country.

Policy makers now see the importance of the role entrepreneurship plays in creating employment and wealth, be it directly or indirectly. The OECD's study on "Fostering Entrepreneurship" to increase economic dynamism by improving the environment for entrepreneurial activity has highlighted the significance of entrepreneurship within an economic system (OECD, 1998).

The development of the small and medium-sized enterprise sector plays a critical role in spatial dynamics, as many forms of creative entrepreneurship are found in this

sector. Clearly, the regional system (education, social support system, culture, accessibility, and so on) plays an important role in the changing conditions for entrepreneurship.

When we move to the regional context, we see that regions face two-way imperatives in a market-driven world. First of all, employment is no doubt the most important feature of a socio-economic welfare system in a region and as well as an important indicator of economic growth, and should therefore be prioritised. Job creation is undoubtedly at the heart of the wealth-creating process and economic growth of a regional economy. Through the incorporation of the inter-related processes of structural change and productivity, development is achieved (Malecki, 1997). According to Fischer & Nijkamp (2009) regional change is ultimately the result of entrepreneurial activity in which innovations are key factors.

Looking from a theoretical perspective, it is arguable that the regional-efficiency that neoclassical production's function describes, is dependant not just on labour, capital or natural resource endowments, but that the culture of entrepreneurship also plays a key role. In recent years, the benefits of entrepreneurship in a regional economy, in regard to welfare, have provoked the attention of policy to more highly favour entrepreneurship (Fischer&Nijkamp, 2009).

Roberts (1991) emphasizes aspects of local culture and attributes these as critical to building a local environment that fosters entrepreneurship. In doing business, transaction costs are reduced when trust and personal reputation is developed and reinforced, and when people are more willing to cooperate with each other. These things are greatly influenced by the cultural factors in the way that business is conducted.

There seems to be a general consensus in literature on the contributions of women's entrepreneurial activities on development and economic growth. The number of women entering small business ownership has increased significantly across the world. These women make a crucial contribution to the innovation, economic growth and development of local, national and global economies (Fielden&Davidson, 2005), (Brush&Cooper, 2012), (Ahl, 2006). Apart from general sentiments, there is a focus on developing economies as women's entrepreneurship, particularly when focused

on high-value-added activities, is fundamental to social and economic progress in developing countries (Terjesen&Amorós, 2010).

However, evidence suggests that the latent entrepreneurial potential of women is underutilized, with detrimental implications for innovation, employment creation, and wealth generation within the global economy (Greene, Han & Marlow, 2013). Policies that can promote societal attitude changes, and train, support and encourage women entrepreneurs will promote inclusiveness as well as fuel economic growth (GEM, 2012).

On the other hand, women's entrepreneurial activities are not only bringing about economic growth. The social impact should not be overlooked. The literature assumes that social change occurs as more women participate in these activities (Calas, Smirchich&Bourne, 2009). Indeed, some research suggests that entrepreneurship may be impervious to some of the posited constraints on business startups and therefore still represents an important source of mobility for entrepreneurs and their families (Lippmann, Davis & Aldrich, 2005).

#### **2.2.4 Transition economies: entrepreneurship / women entrepreneurship**

Since the 1990s the countries of Central and Eastern Europe and the former Soviet Union have embarked on a transformation of their entire political and economic systems, the scale of which is unprecedented in recent history (Smallbone&Welter, 2010). At the beginning of the transition period, the phrase “transition to a market economy” referred to the post communist transformation, seeing it as a passage from central planning to a market-based economy. Nevertheless, it was soon understood that these countries were experiencing a multi dimensional transformation in economic, political and social terms (Xheneti&Smallbone, 2008).

Transition countries, in Eastern Europe, Central Asia and the Caucasus have ended up in different paths of development. In Central and Eastern European countries, the process of accession to the European Union (EU) has shaped most of the policy development, in relation to the ongoing processes of market reform to influence the path of private sector development. However, the Commonwealth of Independent States (CIS) in Central Asia and the Caucasus was different because the basic



framework conditions required for private business development had yet to be installed (Smallbone&Welter, 2001a).

'Basic framework conditions' refers to the creation of initial legislation and regulations allowing private businesses to legally exist, including "the establishment of private property rights, market-based institutions, a commercial banking system, company and business law, a code of business ethics, a liberal trade regime, and market-based pricing for inputs, goods, and services" (OECD, 1998).

However, the common outcome for all of the transition countries was that the transition and transformation was not only political, but also economic and social where the development of a private sector was an important feature of this change process. The institutional change which was required by the forces of transition was more or less in the same direction in all of these countries: The switch from a centrally-planned system where the decisions on allocation of resources were made solely by the governments to a decentralized system where market allocation dictates the distribution of resources. (Aidis&Sauka, 2005).

The transition process to a market economy from a centrally planned economy did not come without its problems. A dramatic increase in income inequality has proved troublesome especially in countries of the former Soviet Union (Alamet al., 2005), (Heyns, 2005). Because, the essence of the previous socialist politico-economic system of these centrally planned economies was limiting the extent of inequality, which was achieved through concentrating assets in the hands of the state, compressing wages and salaries, and aiming tax and transfer policies to limit incentives and income differentials. Social services, health care and education were universally provided to all segments of the society for free, while the prices of social necessities including housing, food and transportation were set below production costs so that people could afford them (Habibov 2013). As a result, the Soviet society was fairly egalitarian (Atkinson&Micklewright, 1992).

However, this was changed with the transition which required public property to be privatised, and control over the wages was abandoned, and social services were unequally used by different segments of the society which resulted in an unequal distribution of income and well-being (Milanovic, 1999), (Milanovic&Ersado, 2010).

This was especially the case in the countries of the Caucasus and Central Asia (Falkingham, 2004), (Fox, 2003).

A set of measures emerged as a way of alleviating the burden of unequal income distribution across the transition geography. One efficient way has been the creation of small and medium enterprises (SMEs). Aidis and Sauka (2005) argue that in fact, SMEs are of special importance to transition countries for a number of reasons. Firstly, they are able to provide economic benefits not only to their owners (entrepreneurs) but also to the whole economy which is enabled to learn, experiment and adapt through the SMEs. Secondly, in most transition countries, because of the priority given to the process of privatisation of the large scale enterprises which were at the hands of the governments before, the SME sector was largely neglected and even discriminated against in the early transition period, which has arguably resulted in less resources and attention being paid to the needs of SME development.

Moreover, "research in transition countries shows, that even if SMEs do not generate net new jobs, they reduce the erosion of human capital by providing alternative employment opportunities for relatively skilled yet unemployed workers" (EBRD, 1995). SME development is important for both the early phases of transition (EBRD, 1995), (Smallbone&Welter, 2001b), and the advanced stages of post-transition. However, according to some researchers, there are limitations to the benefits of the the SME sector, that is they can adapt to the changing conditions in the market place, but they are not as much able to influence such developments (Aidis&Sauka, 2005). SME sector whether or not in the transition context, face a series of almost universal problems: limited access to finance, a low degree of professionalism, difficulties in recruiting qualified personnel, dependency on clients and suppliers and the absence of economies of scale are described as some core weaknesses that need attention in any context (Burns, 2001). In this respect, understanding the problems faced by SMEs in the specific context of transition could provide the necessary background to develop policies for SME support.

McMillan & Woodruff (2002) argue that the success or failure of a transition economy can be traced in large part to the performance of its entrepreneurs. One of the distinguishing characteristics of transitional economies is the high human capital at the starting point relative to GDP per capita (Spagat, 2005). Educational levels, in

particular, are as high or even higher than those in many developed countries (Manolova et al., 2007).

The transition process was experienced differently by different segments of the society depending on their positions in relation to the elements of the previous system. In this respect, women had their own share of the change in a number of areas. First of all, in the previous system, women in transitional countries were mostly concentrated in state-run sectors. This meant that with the transition process, their salaries decreased considerably, especially in education, health care and social services (Jovanovic&Lokshin, 2004). In the higher-paid private businesses, women are underrepresented anyway, but even there, they still earn a significantly lower wage than men. They are also under-represented among private entrepreneurs (Habibov, 2010a). Secondly, the reduced government spending on social services, health care and education meant that women were hit harder in the transition process because they are often responsible for the care of children, the elderly and the disabled (Habibov, 2010a).

The recent European Bank for Reconstruction and Development's (2011) Life in Transition Report suggests that despite the fact that women in transition economies have similar levels of education, training, and skills as men, they are less likely to become entrepreneurs, with one of the reasons cited being the fact that women are more risk-averse (Kuriakose, 2013). Those women who chose to become entrepreneurs in transitional economies, show more willingness to grow their ventures in comparison to their peers in Western economies (Welter, Smallbone & Isakova, 2006). However, they seem to be more fragile in the sense that they have a lower propensity to grow and a higher propensity to exit under unfavorable industry and competitive conditions (Manolova et al., 2007).

### **2.3 Hypotheses**

Taking into consideration the plethora of suggestions regarding the link between the public policies, entrepreneurship and regional development, we argue that targeted policies for supporting women entrepreneurship has benefits, especially in resource rich transition countries context where women do have a high human capital. In order to support our argument, we will test the below hypotheses:

H1: In transition countries, policy measures for entrepreneurship as a tool for regional development focus on “Opportunity Factors” for latent entrepreneurs.

H2: Public spending on women entrepreneurship policy measures will eventually have a positive impact on economic and social development at the regional level (through creating employment, increasing family income, generating income for the regional economy from outside the region, betterment of women’s lives).

## **2.4 Methodology**

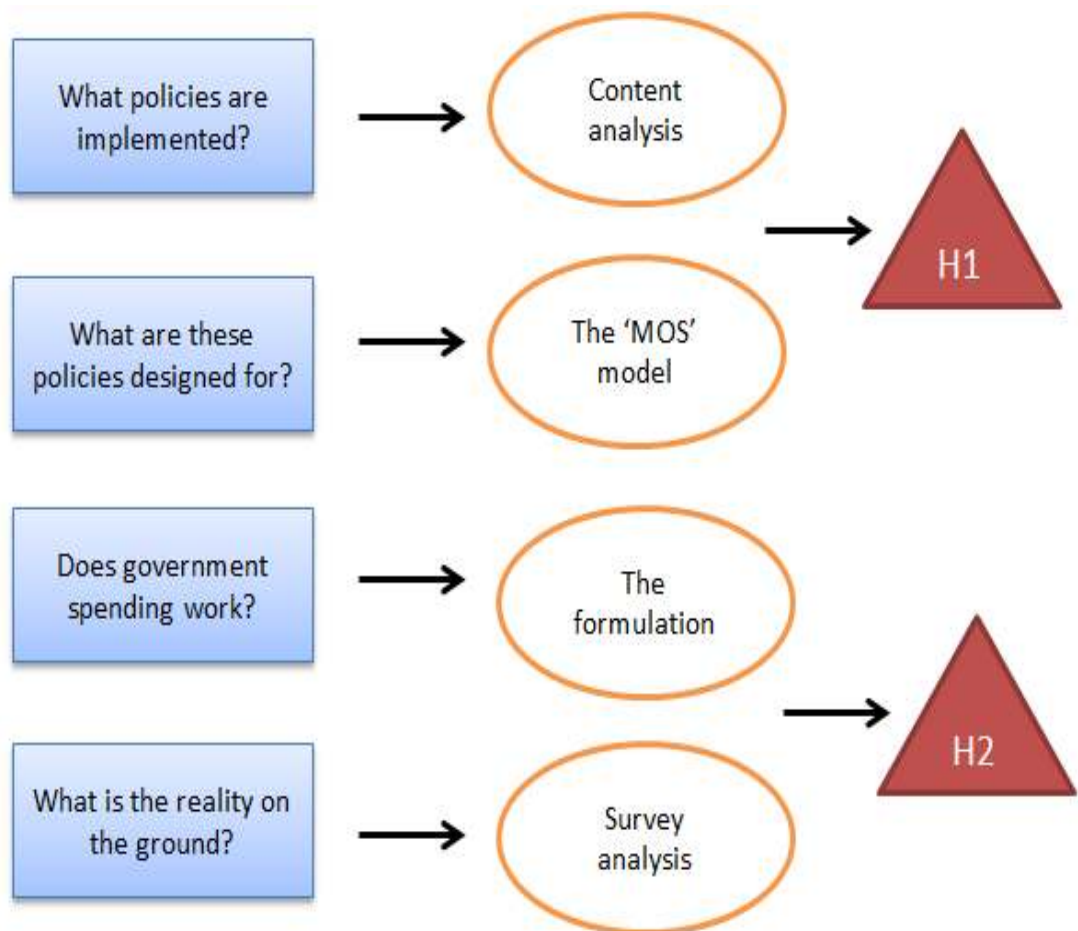
In this paper, different methods will be used to analyse the public policies in Azerbaijan to promote and support women entrepreneurship as a tool for regional development.

In order to test the first hypothesis, we will conduct a content analysis of the policies of the government in Azerbaijan in terms of regional development strategies in order to see how the policies for entrepreneurship in general and women entrepreneurship in particular are placed within these policies and to see what measures are implemented to achieve the set goals. Here we will be focusing on the official documents of the government of Azerbaijan regarding the government's regional development strategy. This will also allow us to see the institution building efforts of the government to extend the outreach of its policies. Then we will use a framework, the so-called "MOS" Model developed by Stevenson and Lundström (2005) to assess in what way the behaviour of individuals were tried to be influenced by these policy measures to encourage and develop entrepreneurship.

The second hypothesis will be tested firstly with an experimental formulation developed to see the mechanism through which the government policies and measures on women entrepreneurship affects the employment creation in a region. Secondly, the perception of the women entrepreneurs of the government policies and measures will be sought through a survey conducted among the women entrepreneurs in one of the economic regions of the country. This way, we will be able to see the endogenous growth factors within a region and how these local resources, including the human capital of the women are mobilised.

The analysis framework depicting the methodologies used to answer the research questions, and the hypotheses to be tested through this process is depicted in **Figure**

**2.1.** As it is seen, the methodology comprises different methods of analysis which are informed by the results of the previous method and feed results into the following method.



**Figure 2.1:** Analysis framework

#### **2.4.1 Content analysis**

Content analysis is described as a research technique for the objective, systematic and quantitative description of the manifest content of communication by Berelson (1952), and was developed as a technique allowing the analysis of qualitative data from documents used in communication (Krippendorff, 1989).

Content analysis has been used in various areas including consumer communications (Kolbe&Burnett, 1991), evolution of corporate sustainability reporting (Tînjălă, Pantea&Buglea, 2015), sustainability and location of manufacturing facilities (Chen, Olhager&Tang, 2014), television series' effect on naturalization of border

militarization (Dorr, Elçioğlu & Gaydos 2014), business education for sustainable development (Mustață et al. 2013). It has been used as a qualitative research method for a number of purposes, one of which is to identify the intentions, focus or communication trends of an individual, group or institution<sup>3</sup>.

We will employ content analysis in our study to review the main official documents on the government of Azerbaijan setting out the regional development strategy of the country. These documents are State Program on Social-Economic Development of Regions (2004-2008), State Program on Social-Economic Development of Regions (2009-2013) and State Program on Social-Economic Development of Regions (2014-2018). Conducting a content analysis on these documents and their annexes, we will try and identify the focus of the government of Azerbaijan on policies for promoting entrepreneurship in general and women entrepreneurship in particular.

#### **2.4.2 The "MOS" Model**

Stevenson and Lundström (2005) developed a framework of entrepreneurship policy measures. Their basic idea is that it is individuals that do business and not firms, a point also argued by Boter, Hjalmarsson and Lundström (1999) in SAGPA (2011). If one then would like to influence the behaviour of individuals, it can be achieved by employing measures that motivate (M) individuals, by having as good opportunities (O) as possible for individuals to start and run companies and to have good systems for skills (S) and competence developments for individuals, summarised in a framework called the "MOS" Model.

Stevenson and Lundström (2007:107) argue that,

“Through their entrepreneurship policy governments seek to address four broad policy challenges: (1) influencing an entrepreneurial culture, (2) encouraging nascent entrepreneurs (by introducing people to the concept of entrepreneurship, instilling know-how and removing career disincentives); (3) converting nascents to actual entrepreneurs (by assisting them with access to the opportunities and necessary resources to start their businesses); and (4) supporting the first three to four years of start-up vulnerability to influence a positive survival and growth path.

The collective framework of policy measures for doing this consists of six components:

1. entrepreneurship promotion;

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<sup>3</sup><http://writing.colostate.edu/guides/page.cfm?pageid=1307&guideid=61>

2. entrepreneurship education;
3. reducing administrative, legislative and regulatory barriers to entry and exit;
4. business support for start-ups;
5. start-up and seed financing; and
6. target group measures.”

The examples of measures corresponding to each component is provided in Stevenson and Lundström (2007). They also point out that one policy objective and its corresponding measure may come under more than one of the Motivation/Opportunity/Skills traits.

**Table 2.2:** Objectives and measures for each area of the entrepreneurship policy framework (as in Stevenson and Lundström).

| Policy area                | Policy objectives   | Policy measures  |
|----------------------------|---|--|
| Entrepreneurship promotion | Increase social value of entrepreneurship; create more awareness of entrepreneurship in society; promote credible role models   | Awards programmes<br>Profiling role models<br>Mass media activities<br>Entrepreneurship events   |
| Entrepreneurship education | Increase opportunities for people to gain entrepreneurial 'know-how'; integrate entrepreneurship into various levels of the formal education system   | Entrepreneurship adopted in National Curriculum Guidelines<br>Development of entrepreneurship-related curriculum integration into levels of the formal education system<br>Train teachers how to teach entrepreneurship<br>Support youth entrepreneurship and student venture activities<br>Sponsor business plan competitions and awards<br>Fund incubators and seed capital programmes |
| Barriers to entry and exit | Reduce the time and cost of starting a new business; reduce barriers to and improve opportunities for start-up and growth; remove 'disincentives' to the entrepreneurial career choice decision | Streamline business registration processes<br>Single-window access for dealings with government<br>Remove 'quiet disincentives' in labour market, social security, and taxation regimes<br>Review competition policy, company law, bankruptcy laws, patent and intellectual property regimes, and regulation affecting the transfer of   |

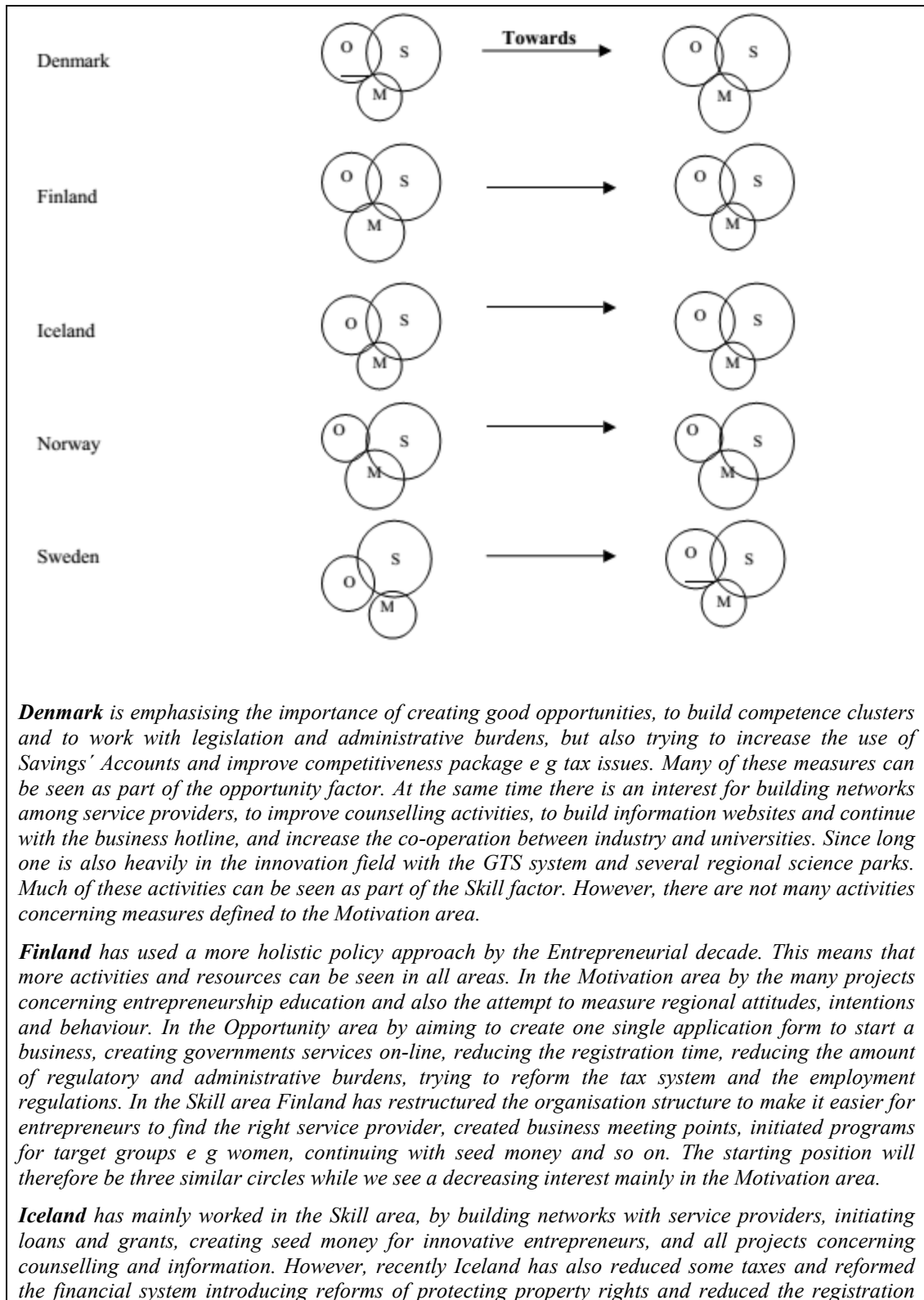
|                             |   |   |
|-----------------------------|---|---|
|                             |   | <p>business ownership</p> <p>Relax tax and administrative burden on new firms</p> <p>Offer tax breaks/concessions for new firms; tax breaks to encourage investors to release capital to new firms</p> <p>Implement 'better regulation' units within government</p>   |
| Start-up business support   | Provide easy access to start-up information, advice, counselling, and other institutional supports; facilitate the transfer of 'know-how'                                   | <p>Networks of enterprise and start-up service centres and one-stop shops for new entrepreneurs</p> <p>Start-up web-portals</p> <p>Mentoring and training programmes for new entrepreneurs</p> <p>National incubator strategies</p> <p>Support for entrepreneur networks</p> <p>Programmes to improve quality of business advisory services</p>   |
| Start-up and seed financing | Address market failures and gaps in provision of appropriate financing for new and early stage firms; reduce information asymmetries  | <p>Micro-loan, pre-venture and starter funds for new entrepreneurs</p> <p>Loan guarantee programmes</p> <p>Seed capital funds for techno-starters</p> <p>Incentives for angel and venture capital investments in new and early-stage firms; foster angel networks</p> <p>Access to information about resources and types of available financing</p> <p>Partnerships with banks and other financing intermediaries</p> |
| Target groups               | Reduce systemic barriers to raise start-up rates of groups underrepresented as business owners; reduce risks for high-growth technology start-ups to foster wealth creation | <p>Target group-specific enterprise centres, awards, promotion (role-models), advisory, training and mentoring services, peer networks, web-portals and loan programmes</p> <p>Procurement set-asides</p> <p>Incubators for techno-starts</p> <p>Venture capital, pre-seed funds, campus capital programmes</p>   |

**Table 2.2 (continued):** Objectives and measures for each area of the entrepreneurship policy framework



A rough representation of the MOS Model for the Nordic countries, with a probable development of different areas and its interpretation are given in Lundström (2003) as depicted as a case study in **Figure 2.2**.

**Figure 2.2:** The MOS Model for different Nordic countries.



time. However, in the Motivation area there is not many measures taken. Therefore, it is an increase in the Opportunity area but still the Skill area is dominating.

**Norway** has mainly worked in the Skill area by focusing on knowledge transfer and financing, network building and financing co-operation between R&D and society. However, also in the area of Motivation some measures are taken above all in the school system. Some measures are also targeted at increasing the number of women entrepreneurs. Furthermore, Norway was the country who started the telephone services for people interested in starting their own company. In the Opportunity area one example is tax reduction for R&D expenses. However, Norway is mainly working in the areas of Skill and Motivation.

**Sweden** has for a number of years concentrated much of the resources to the area of Skill. There is a great number of financial programs, counselling services and information systems. The Start-Up line, ALMI regional companies, central agencies such as NUTEK, ITPS and VINNOVA are examples of this. During the last years and probably in the future one will see an increasing interest mainly in the Opportunity area where since a couple of years the Simplex Group at the Ministry of Industry is working and they have created initiatives to improve regulations and reduced administrative burdens. However, limited resources are invested in this area. Finally, not very much is done in the area of Motivation.

**Figure 2.2 (continued):** The MOS Model for different Nordic countries.

### 2.4.3 Can women "migrate" to entrepreneurship?:A formulation

Hart (1975) uses a model based on expectations to understand the dynamics behind the decision of migrants to migrate from one region to another. He builds on Sjaastad's view that "a relationship is found between income or earning and migration, and usually in the expected direction (that is, high earnings are associated with net in-migration, low earnings with net out-migration)" (as in Hart, 1975).

Hart makes the following argument:

"In considering the necessity and feasibility of moving across their (regional) [our paranthesis] boundary, a given stock of potential migrants will compare their expected value of utility derived from their anticipated returns<sup>4</sup> both in their possible regions of destination and their region of origin. Any expected gain in utility as a result of the move will in turn be compared to the expected physical and opportunity costs necessarily incurred if the move were to be made. (p:290)"

Following Hart (1975), Faggian & McCann (2009) take the hypothetical case of a potential migrant living in region  $i$  who is considering moving to region  $j$ . They argue that the migrant will migrate only if the expected value of utility derived from the net present value of his expected returns ( $R_i$ ) in the origin region  $i$  is less than that which can be earned in the destination region  $j$  minus the costs associated with the relocation ( $C_{ij}$ ). In which case,

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<sup>4</sup>The relevant returns would include both pecuniary and non pecuniary items (Hart 1975)

$$E\{U[R_i](0)\} < E\{U[R_j](0)\} - E\{C_{ij}(0)\} \quad (2.2)$$

In our study we argue that, since migration is a means by which individuals can reap the rewards to human capital (Faggian & McCann, 2009), then, women can "migrate" from being idle economic actors to entrepreneurship where they can reap the rewards to their accumulated human capital (education and other qualities attributable to being a woman) without actually moving out of their region.

This assumption is consistent with the "expectancy theory" (also referred to as VIE [valence, instrumentality, and expectancy] theory) which is a dominant theoretical framework for explaining human motivation. This theory assumes that behaviour will be undertaken if and when the individual believes that his or her efforts will lead to a successful performance that will bring certain outcomes with direct positive value or will lead to other valued outcomes (Vroom, 1964). Expectancy theory is well suited for the study of entrepreneurial behaviour (Gatewood, 2004), and many empirical studies in entrepreneurship have used it as a theoretical framework (Manolova et al., 2007).

In this case, let us suppose that a woman who is not engaged in any income generating activity wants to become an entrepreneur within the region. Here, we need consider the case of a *necessity driven entrepreneurship*, i.e. entrepreneurship is the only way of earning a substantial income. The woman will make this decision only if *ceteris paribus* the expected value of utility derived from the present value of her expected returns as a person who is not participating in the work force,  $U_w(NE)$ , is less than that which can be earned in entrepreneurial activity,  $U_w(E)$ , minus the costs associated with setting up her own business,  $C_w(E)$ .

$$U_w(NE) < U_w(E) - C_w(E) \quad (2.3)$$

which can be re-arranged as

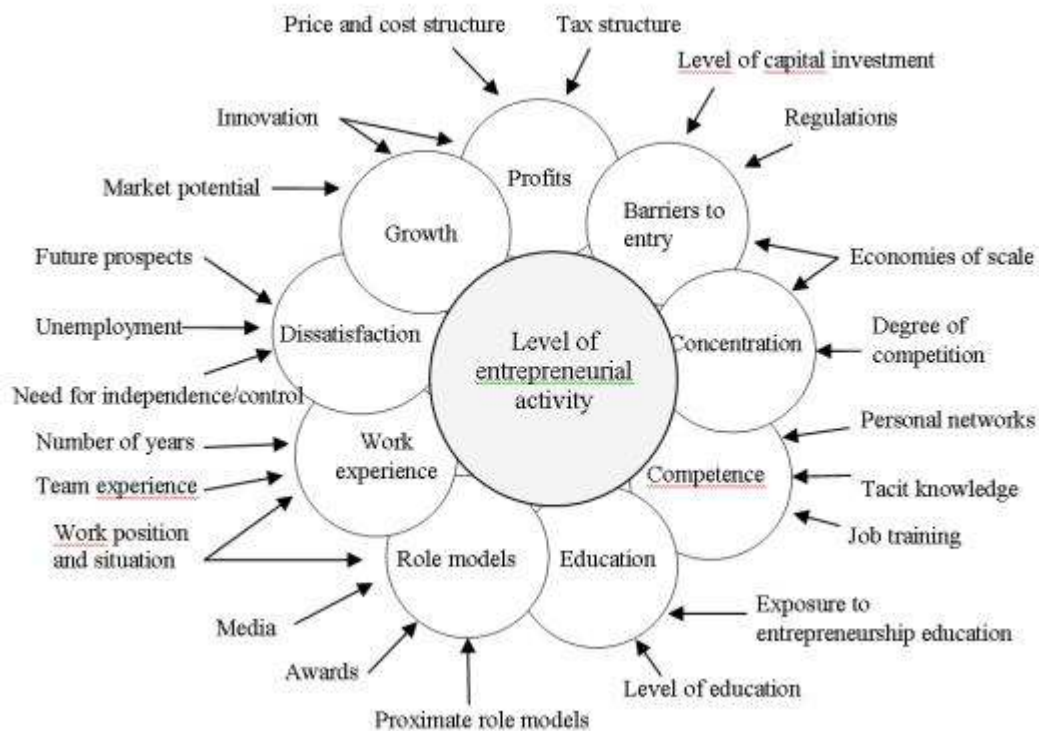
$$U_w(E) - C_w(E) > U_w(NE) \quad (2.4)$$

Let us suppose that the government wants to run programs to support women's entrepreneurial activities in a certain region. The government will run these programs only if the cost that the government bears to run these programs  $C_g(E)$  is less than the cost of supporting unemployed women,  $C_g(NE)$ .

$$C_g(E) < C_g(NE) \quad (2.5)$$

Moreover, if the government is expecting utility from women's entrepreneurial activities (in the form of taxes) this will alleviate the burden of these programs.

Of course, this is an extremely simplified model, where the assumption "*ceteris paribus*" covers all the other factors. The complexity of the system affecting the level of entrepreneurial activity on the part of the individuals as summarised by Stevenson and Lundström (2005) is in **Figure 2.3**. Moreover, for women entrepreneurs, there are additional factors including cultural values, existence of childcare support systems, etc.



**Figure 2.3:** Variables influencing level of entrepreneurial activity (as in Lundström and Stevenson, 2005:208).

In this case, *ceteris paribus*, in a region for it to be feasible for the government to run programs to support women entrepreneurs and for the previously unemployed women to make a decision to take up entrepreneurship will require the existence of both conditions summarized in equations (2.4) and (2.5).

Here, for the sake of simplicity, we assume the following:

i) the regional economy is a closed system, i.e. the market size and human capital stock are given.

- ii) the female population in the region is a homogenous source of human capital.
- iii) although the government's main aim is to encourage regional growth and development, and increasing employment as an important part of it, the government is also seeking pecuniary returns from the entrepreneurial activities of women as other entrepreneurs, in the form of taxes.
- iv) the government provides unemployment benefits to the unemployed individuals
- v) women expect utility from their entrepreneurial activities
- vi) women face an initial cost at the point of entry into business

Accordingly,

- (t) : average amount (*not rate*) of tax income the government yields from entrepreneurs (per unit time)
- (w) : number of women who benefit from the government's support programs and as a result take up entrepreneurship
- (s) : expected life span of the businesses set up by (w) (expressed in unit time)
- (b) : fixed amount of unemployment benefit per unemployed woman (per unit time)
- (r) : expected returns of the women from their entrepreneurial activities (per unit time)
- (c) : initial fixed cost faced by women when setting up their businesses (per woman)
- (m) : total employment created by the entrepreneurial activities of (w)
- (h) : (w)'s propensity to hire employees

Thus,

$$U_w(E) : r.s$$

$$C_w(E) : c$$

$$U_w(NE) : b.s$$

then equation (1.4) can be re-written as:

$$r.s - c > b.s \quad (2.6)$$

$$C_g(E) : f - t.w.s$$

$$C_g(NE) : b.w.s$$

then equation (1.5) can be re-written as:

$$f - t.w.s < b.w.s \quad (2.7)$$

Moreover, the relationship between the number of women entrepreneurs ( $w$ ), and the number of employees they hire ( $m$ ) is as follows:

$$m = w.h \quad (2.8)$$

Assumption (i) means that the profitability of entrepreneurial activities will diminish as the number of new entrepreneurs in the given market increases. This will eventually limit the number of new (women) entrepreneurs into the system at the point where the utility expected from the entrepreneurial activity minus the start-up cost is less than the expected returns of not participating in any economic activity (unemployment). Therefore, the equilibrium point of the entry process will be the point where

$$U_w(E) - C_w(E) = U_w(NE) \quad (2.9)$$

which can be re-written as

$$r.s - c = b.s \quad (2.10)$$

On the other hand, the government's equilibrium point will be where the net utility expected by the government from women's entrepreneurial activities is equal to the cost of supporting women when they are economically inactive, which can be denoted as

$$C_g(E) = C_g(NE) \quad (2.11)$$

Here, the cost of implementing policies to encourage women entrepreneurs (soft loan schemes, training programs, etc.) is a certain fixed amount allocated from the budget of the national government ( $f$ ), which means, equation (1.11) can be re-written as

$$f - t.w.s = b.w.s \quad (2.12)$$

If we combine equations (1.10) and (1.12), we derive

$$f - t.w.s = w(rs - c) \quad (2.13)$$

$$w = \frac{f}{rs-c+ts} \quad (2.14)$$

from equation (1.8), we derive

$$w = \frac{m}{h} \quad (2.15)$$

combining equations (1.14) and (1.15) yields

$$m = \frac{f.h}{rs-c+ts} \quad (2.16)$$

using equation (1.10), we can also yield

$$m = \frac{f.h}{bs+ts} \quad (2.17)$$

or

$$m = \frac{f.h}{s(b+t)} \quad (2.18)$$

Equations (1.16) and (1.18) mean that, the number of new employees ( $m$ ) (i.e. growth in employment in the region) is directly proportional to the amount of government spending on programs for encouraging women entrepreneurship. In other words, employment increases as the government spends more money on entrepreneurship programs, and the increase is shaped by the women's propensity to hire, the expected life span of the business, the benefits provided for the unemployed, and the amount of taxes to be paid by business owners.

Of course, the outcome is intuitive, and it should be seen as a thinking tool rather than a formula to be used to make precise calculations. Because, it is based on certain assumptions and doesn't take into consideration other complex web of dynamics that affect the decision-making processes of both the potential entrepreneurs and the government. However, it helps us to see the effects of various elements in relation to each other in the process of supporting women entrepreneurship with the aim of boosting regional development in general and creating employment in particular. The equations also have other policy implications.

For example, the amount of (corporate) tax will hamper the willingness of the women entrepreneurs to hire more people as it will increase the total cost of running

the business. Therefore, tax exemptions, or tax breaks could be useful in encouraging new business creation.

The effect of benefits looks a little bit confusing in that an increase in the benefit level causes an increase in the number of jobs created, whereas we might think that women would have less incentive to set up their own businesses if they are enjoying high unemployment benefits. However, our initial proposal regarding the women's decision to set up their own business required (as indicated in equations (1.3), (1.4) and (1.6)) that the unemployment benefits are smaller than the expected net returns. Accordingly, equation (1.6) implies that any increase in (b) will be coupled by an increase in (r) or a decrease in the initial cost (c).

Moreover, it should be taken into consideration that (b) also applies to the potential employees of the business. This will also imply that as the benefits increase, unemployed potential workers in the region will be less willing to work for a company or demand higher wages which will be a burden on the business and result in less job creation.

The effect of the expected life span (s) seems to be negative on the job creation. This can be explained by the notion that (s) is actually the time required to get even for both the entrepreneurs and the government. That means that (s) is the time needed for the women's expected utility, i.e. returns from the business, to offset the total cost of setting up the business i.e. initial cost and the foregone unemployment benefit. And for the government, it is the time needed for the tax income to offset the net cost of running the support programs.

The initial costs are positively related on the creation of new jobs which can be explained by assuming that bigger the setting up costs, bigger is the business. As the scale of the business grows, then it is more likely that the business will not be a sole proprietorship.

It can be seen that an increase in the returns of the entrepreneurs is associated with a decrease in the employment levels. In a closed economy, productivity of the employers will be limited by the market size which remains the same. Therefore, at the equilibrium, the employers and the business will be at their full productivity, and in order to increase the profits above equilibrium levels will require a cut in the costs, including the number (or hours) of employment.



More is not always more, i.e. allocating more funding for the entrepreneurship support programs does not necessarily bring more entrepreneurship and employment, unless the funded programs are targeted and efficient. This will require a good understanding of the needs of the potential entrepreneurs while taking into consideration the market conditions, the culture of the society underpinning the motivations of the recipients of support.

#### *Sample case from the United Kingdom*

In order to test our argument that public money spent on programs to support women entrepreneurship creates economic growth and development, we will take three cases in the United Kingdom.

Supporting entrepreneurs and rural development was a stated goal<sup>5</sup> of the current coalition government of the United Kingdom which came into power in 2010 (elections due on 7 May 2015). One of the initiatives taken to this end was the Rural Growth Network pilot programmes (RGNs) designed to reduce barriers to economic growth in the rural areas of the country<sup>6</sup>.

The pilot programmes were applied in five areas: Cumbria, Heart of the South West (covering Devon and Somerset), North East (covering areas of County Durham, Gateshead and Northumberland), Swindon and Wiltshire, Warwickshire, a good distribution across the country.

Although women are specific targets for the programme, the programme is not exclusively for them. On the other hand, the type of entrepreneurship in rural areas tend to be more of necessity-driven than opportunity driven, which is more relevant for our formulation. We have taken the three regions as information on the number of businesses which were helped by the programme were not clear for the other two regions.

The table below (**Table 2.3**) summarizes the information on the programme and the regions.

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<sup>5</sup>TheCoalition:ourprogrammeforgovernment (2010)  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/78977/coalition\\_programme\\_for\\_government.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/78977/coalition_programme_for_government.pdf)

<sup>6</sup><https://www.gov.uk/government/policies/stimulating-economic-growth-in-rural-areas/supporting-pages/rural-growth-network-pilots>

**Table 2.3:** Rural Growth Network pilot programme variables for selected areas

| Region       | f (in £)  | f*     | t (in £)<br>(annual) | b (in £)<br>(annual) | w   | m   | h <sup>uk</sup> | h <sup>r</sup> |
|--------------|-----------|--------|----------------------|----------------------|-----|-----|-----------------|----------------|
| Cumbria      | 3,576,000 | 399.64 | 5140                 | 6812                 | 480 | 900 | 2.97            | 1.9            |
| North East   | 3,201,290 | 103.45 | 5140                 | 6812                 | 40  | 300 | 2.97            | 7.5            |
| Warwickshire | 2,402,726 | 298.40 | 5140                 | 6812                 | 120 | 500 | 2.97            | 4.2            |

Here,

f: the amount allocated to the entrepreneurship support in the region

f\*: the ratio of f to the total number of job seeker's allowance (JSA) claimants in the region (calculated in order to allow a standardized comparison between the regions)

t: the average amount of income tax paid in the United Kingdom<sup>7</sup>

b: Income based JSA per month as an average of £57.90 per week for those aged from 18 to 24, and £73.10 per week for those aged 25 or over<sup>8</sup>

w: the number of people (not women only) who benefitted from the programme

m: the number of jobs created or safeguarded by the businesses which benefitted from the programme

h<sup>uk</sup>: the average number of employees per SME in the United Kingdom<sup>9</sup>

h<sup>r</sup>: the number of jobs per business that benefitted from the programme in the region

Here, the h<sup>uk</sup> is the average number of employees per SME in the United Kingdom, and indicates the rate at which the government hopes that the new enterprises in the region will eventually hire employees. However, the new enterprises' propensity to hire employees remains at h<sup>r</sup>, a regional value which is different than the

<sup>7</sup><https://www.gov.uk/government/statistics/income-and-tax-by-county-and-region-2010-to-2011>

<sup>8</sup><https://www.gov.uk/jobseekers-allowance/what-youll-get>

<sup>9</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/254552/13-92-business-population-estimates-2013-stats-release-4.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/254552/13-92-business-population-estimates-2013-stats-release-4.pdf)

national average, and is determined as a result of the regional dynamics such as the market size, the type of businesses helped with the programme, etc.

Moreover, the relationship between  $f^*$  and  $w$  is also important, because  $f^*$  tells us the amount of government expenditure per job seeker in the region. As this amount goes up, we see that the government programme reaches more people in the region. This means that government runs programmes and invests money in the region, taking into account the rate of the unemployed people in the region and ensures that money spent per job seeker is resonated in the outcome of the programme.

In the case of RGNs pilot programme, *ceteris paribus* the increase in the amount of budget allocation to the programmes per JSA claimant in the region is proportional to the increase in the number of employment created or safeguarded by the businesses which benefitted from the programme, i.e. an increase in ( $f^*$ ) brings along an increase in ( $m$ ) through a mechanism consistent with our formulation.

In other words, in North East region for example, government spending on entrepreneurship programmes at a level which is equivalent to £103 gains a success by reaching 40 entrepreneurs, which in turn creates/safeguards 300 jobs. These numbers go up in Warwickshire and Cumbria, in which £298 and £400 spending per JSA claimant in the region helps 120 and 480 entrepreneurs, creating/safeguarding 500 and 900 jobs respectively.

Clearly, and in accordance with our formulation, the government's one time expenditure on the programme will be paid back by the income tax and the savings on unemployment benefits in a period of time which would depend on the number of beneficiaries of the programme, and their businesses' survival rate. The time will be shortened if we take into consideration the foregone benefit payments to the employees of these businesses, which will depend on the ( $h$ ), i.e. the rate at which the businesses hire employees.

In this section, we saw that in the United Kingdom example, our argument that public money spent on programs to support women entrepreneurship creates economic growth and development through creation of employment is supported by the three cases in the United Kingdom. The reason why we chose the United Kingdom is that it is a developed market economy where institutions are in place to implement policies and availability of data is less of a problem.

#### 2.4.4 The survey analysis

In this part of our study, a questionnaire was filled in by a total number of 50 women entrepreneurs operating in Ganja-Qazax economic region of the Republic of Azerbaijan. The questionnaire was sent by e-mail to Chairperson of a social development association "Geleceğe Addım" (Step into the Future) who then contacted the union of "Azerbaycan Sahipkar Kadınlar İctimai Birliyi" (Women Entrepreneurs' Association of Azerbaijan) in Ganja, where the questionnaires were filled and sent back by e-mail.

The survey form was partly based on the "A survey on women entrepreneurs" that was carried out by the Eurochambers Women Network in the framework of the project "Women in Business and in Decision-Making". The questionnaire was then tailored to the needs of the researcher. It included questions about i) the profile of the businesses, ii) the profile of the entrepreneur, iii) motivations, iv) obstacles the women faced when starting their business and running it, v) impact of their entrepreneurial activity on their families and the local economy, vi) their perception of the programmes run by the government for women entrepreneurship. The survey form is attached as **Appendix A**.

The questions on the profile of the entrepreneur inquire about their age, education level, marital status. Among these, education level is an important indicator of human capital. In order to have a picture of the business, questions were asked on which sector they are operating in and how many people they employed. In order to grasp their preception of the impact of government poicies and measures implemented for women entrepreneurs, they were asked to confirm whether or not they benefited from government support (in the form of concessionsl loans, training, or other), if they believed that the support they received from the government is actually useful, and whether or not they could have set up their businesses without government support.

### 3. THE CASE OF AZERBAIJAN

#### 3.1 Economic snapshot

Azerbaijan is a rising economy in the region with a stable political background. The steady growth of its income since re-gaining its independence 24 years ago, has already made it an upper-middle income country at the 67th place among 192 countries in 2013<sup>10</sup>. In terms of GDP per capita, Azerbaijan ranks the 66th out of 185 countries<sup>11</sup>, with considerably low levels of unemployment. Labour force participation rate is quite high and almost uniform among the male and female population, which is considered to be an indicator of very high human development.

When we compare and contrast certain economic indicators of Azerbaijan to those of a group of other transition countries (Commonwealth of Independent States – CIS<sup>12</sup>; members of which are Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan and Ukraine<sup>13</sup>); we see that Azerbaijan's performance especially in terms of economic indicators show results that are above the average of the country's fellow CIS members. Other groupings of transition countries include CEE<sup>14</sup> (Central and Eastern Europe) comprising, and the Baltics<sup>15</sup>. In this regard, Azerbaijani private sector contributes a greater share of the national GDP than the private sector in the average CIS country (Turley&Luke, 2011); receives more FDI (as a share of GDP) than the CIS average (WB, 2013a); however, its GDP growth rates had ups and downs when it was lower than the CIS average in the 1990s, later rocketing to 34.5 % in 2006 which was

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<sup>10</sup> <http://databank.worldbank.org/data/download/GDP.pdf>

<sup>11</sup>

[http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?order=wbapi\\_data\\_value\\_2013+wbapi\\_data\\_value+wbapi\\_data\\_value-last&sort=desc](http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?order=wbapi_data_value_2013+wbapi_data_value+wbapi_data_value-last&sort=desc)

<sup>12</sup> <http://www.imf.org/external/np/exr/ib/2000/110300.htm#I>

<sup>13</sup> <http://www.cisstat.com/eng/cis.htm>

<sup>14</sup> Albania, Bulgaria, Croatia, Czech Republic, FYR Macedonia, Hungary, Poland, Romania, Slovak Republic, Slovenia

<sup>15</sup> Estonia, Latvia, Lithuania

higher than any country in the world (WB, 2013b). Main economic indicators along with political information for Azerbaijan are provided in **Table 3.1**.

**Table 3.1:** Main socio-economic indicators of Azerbaijan

|   |   |
|---|---|
| Establishment:  | 28 May 1918   |
| Independence:   | 18 October 1991   |
| Government system:  | Presidential Republic   |
| Area:   | 86600 km <sup>2</sup>   |
| Population (2014):  | 9.48 million  |
| GDP (2013):   | 75.2 billion USD  |
| GDP per capita (PPP) (2013):  | 17143 USD   |
| Income level:   | Upper middle income   |
| Foreign trade (2013):   |   |
| exports   | 35.8 billion USD  |
| imports   | 19.8 billion USD  |
| Unemployment (2013):  |   |
| female  | 6.6 <sup>16</sup>   |
| male  | 4.4 <sup>17</sup>   |
| Labour force participation rate (2013):                             |   |
| female  | 68 <sup>18</sup>  |
| male  | 73 <sup>19</sup>  |
| female/male ratio   | 0.907   |
| Labour force with secondary / tertiary education (2012):            |   |
| female <sup>20</sup>  | 74 / 13   |
| male <sup>21</sup>  | 68 / 19   |
| Proportion of seats held by women in national parliament (%) (2014) | 16 <sup>22</sup>  |
| Doing business rank (2014):   | 80 (out of 189) <sup>23</sup>   |
| Membership in:  | UN (Non- permanent member of UN Security Council for 2012-2013), Council of Europe, OSCE, Non-Aligned Movement, OIC, Turkic Council |

<sup>16</sup>% of female labour force, <http://data.worldbank.org/indicator/SL.TLF.CACT.ZS>

<sup>17</sup> % of male labour force, <http://data.worldbank.org/indicator/SL.TLF.CACT.ZS>

<sup>18</sup>% of female population, ages 15-64, <http://data.worldbank.org/indicator/SL.TLF.CACT.ZS>

<sup>19</sup> % of male population, ages, 15-64, <http://data.worldbank.org/indicator/SL.TLF.CACT.ZS>

<sup>20</sup> % of female labour force, <http://data.worldbank.org/indicator/SL.TLF.CACT.ZS>

<sup>21</sup>% of male labour force, <http://data.worldbank.org/indicator/SL.TLF.CACT.ZS>

<sup>22</sup> <http://data.worldbank.org/indicator/SG.GEN.PARL.ZS>

<sup>23</sup> <http://www.doingbusiness.org/rankings>

### **3.2 Azerbaijan as a resource-rich transition country**

When the former Soviet Republics around the Caspian Sea (Azerbaijan, Kazakhstan, Turkmenistan *and* Uzbekistan) gained their independence in the last decade of the 20th century, they were faced with a number of challenges. The essence of the challenge was a duality: the transition and the oil boom i.e. the challenge of managing transition from plan to market as well as dealing with their natural resources.

Azerbaijan's transition process started when the country re-gained its independence in October 1991 following the collapse of the Soviet Union. In this section, for the purpose of this study, we will focus on a few aspects of the transition process for Azerbaijan as a resource-rich country: the institution building process, both formal and informal, as well as the need to diversify its economy as these are relevant in terms of regional development and entrepreneurship policies and how they are implemented.

Although there are differences in their individual backgrounds, Azerbaijan is not much different than most of the countries transiting from the centrally-planned economy to a market economy, in terms of the main tasks before the Azerbaijan's administration, which were institution-building to pave the way for a smooth and effective transition to the market economy, strengthening the private sector and alleviate the responsibility on the state as an economic actor, and on the other hand, exploit its hydro-carbon resources in order to accumulate the resources necessary for creating the infrastructure to diversify its economy.

#### **Need for institution building**

As the transition countries embarked on the transformation of their economies to market economies, they faced the task of building new institutions.

Institutions – both formal and informal – are the rules underpinning the transactions between actors in an economy, both transactions between private parties, as well as those between private parties and the government. Property rights and contract enforcement are two crucial elements of the institutional framework, because allowing for the creation, registration and enforcement of private property rights, the institutional framework gives incentives for investment in tangible and intangible assets and risk taking (Claessens&Laeven ,2003), (Johnson, MacMillan&Woodruff,

2002). While the socialist economies had a well-defined institutional framework, these institutions did not allow for effective private property and for market-based exchange. The transition started with the rapid destruction of the institutions supporting socialism in all transition economies. The building of new institutions supporting a broad-based market economy, however, has been much slower and has varied significantly across transition economies (Beck&Laeven, 2006).

The formal institutions are needed in a transition economy to implement the policies which enable the transition process itself. Furthermore, in order to be able to compete economically in the international system, certain representative and market institutions are needed, i.e. the institutions consistent with a democratic political system, a market economy, and free trade (Grzymala-Busse&Jones Luong, 2002).

For example, in order to pursue a policy that promotes entrepreneurship and small business creation for regional development, it is important that the outreach of the policies actually cover the small businesses in all regions of the country. In an attempt to do so, according to EBRD, over the past years regional disparities in access to finance for SMEs have been reduced, with rapid increases in the share of SME loan portfolio available in regions outside the capital, for both large and small banks (EBRD, 2014).

For the transition economies in Eastern Europe, the prospect of European Union (EU) membership was instrumental in building institutions compatible with the market economy and the international system. Azerbaijan lacked such a prospect, however, its relations with the international organizations as well as the willingness of becoming a dignified and credible member of the international community, Azerbaijan held a series of reforms in areas including institution building. Currently, there is an ongoing Comprehensive Institution Building Programme (CIB) jointly run with the EU<sup>24</sup>.

Another important area in terms of institutions in the transition context is what happens to the informal institutions within the society. For the entrepreneurship policies, even the attitude of the officials in government offices towards the

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[http://economy.gov.az/index.php?option=com\\_content&view=article&id=1038&Itemid=183&lang=en](http://economy.gov.az/index.php?option=com_content&view=article&id=1038&Itemid=183&lang=en)



businesses, applicants of state support programs, etc is important as it affects the motivations of the to-be entrepreneurs. It is even more important for the women entrepreneurs as they face more pressure from the society for seeking entrepreneurial opportunities. In the case of Azerbaijan, the government has joined almost all essential international documents on the protection of women's rights since it gained independence, however, existing traditional stereotypes of the image of woman in society, whose role is limited by the boundaries of family is still cited as another reason of the low participation of women in social, political and public life of the country (MFA-AZ, 2015b).

### **Need for diversification**

At the time Azerbaijan gained its independence, the country's centrally planned economy mostly relied on oil production by state-owned companies with which had little to no experience of operating in a free market environment or independently managing the nation's resource wealth. This resulted in Azerbaijan's rich fields running at low productivity levels, and its transportation out of the country had to rely on the existing Soviet network of oil pipelines and transit routes which were mainly headed to Moscow. However, in 1994, Azerbaijan signed the Contract of the Century<sup>25</sup> an agreement which allowed reaping the benefits of its rich resources by partnering with and using the know-how of the international oil companies.

As the country's oil fields were developed, the country experienced a strong investment boom, both in petroleum sector and in the construction and services sector, which benefitted from the spillover effects of foreign investments and petroleum revenue (IMF, 1998).

The country is still abundant in natural resources. At the moment, oil and gas receipts are estimated to account for over 70 per cent of Azerbaijan's exports and nearly 50 per cent of budget revenues (EBRD, 2014). So far, the Azerbaijani administration has adopted ambitious targets for diversification under the Vision 2020 strategy and

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<sup>25</sup>Production Sharing Agreement related to the development of "Azeri – Chirag - Guneshli" deep water oil fields has been reflected on 400 pages and 4 languages. 13 companies (Amoco, BP, McDermott, Unocal, SOCAR, LukOil, Statoil, Exxon, TPAO, Pennzoil, Itochu, Ramco, Delta) from 8 countries (Azerbaijan, USA, Great-Britain, Russia, Turkey, Norway, Japan, Saudi Arabia) have participated in signing of the Contract of the Century. This Contract has paved the way towards to the signature of other 26 contracts with 41 oil companies from 19 countries. <http://en.president.az/azerbaijan/contract/>

has made some progress in modernising the economy (Holuj, 2009). Although the share of oil rents in the country's GDP is decreasing, the need to diversify its economy is still a pressing issue. According to European Bank for Reconstruction and Development, Azerbaijan has reached a critical stage in its development (EBRD, 2014).

With oil output set to decline from 2017 and the economy's dependence on accumulated hydrocarbon revenues very high, diversification of the economy will be critical to ensure that Azerbaijan enters the post-oil period with a modern and vibrant private sector. In this regard, the crucial role of entrepreneurs gains even more importance.

Diversification of the economic activities is also important for regional development in the country as most of the extracting sector and other sectors growing as a result of the spillover effect are located around the capital Baku. Therefore, the objective of the first State Programme for regional socio-economic development<sup>26</sup> was to create employment and improve the living standards of the people in the country through sustainable development of the non-oil sector.

At the Second Ministerial Roundtable of the OECD Eastern Europe and South Caucasus Initiative, held in Prague in June 2011, government delegates adopted "*The Declaration on Fostering SMEs, Entrepreneurship and Competitiveness in Eastern Europe and the South Caucasus*" (covering the Eastern Partnership countries) where they recognised "that SMEs are a key driver of economic growth, innovation and entrepreneurship in OECD member countries and non-OECD economies." and "that SMEs in the Eastern Europe and South Caucasus countries represent an untapped reservoir for job creation, economic growth and social cohesion" (OECD, 2012).

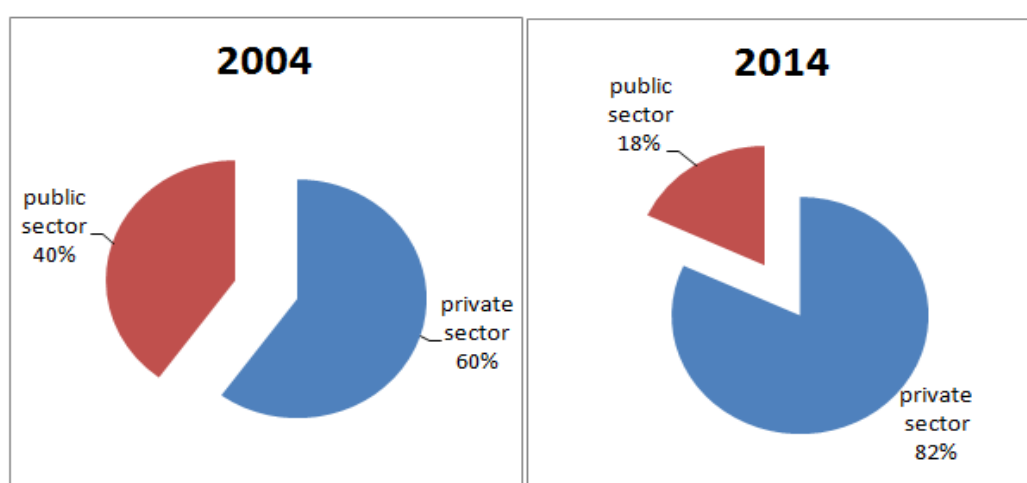
### **3.3 Entrepreneurship and women entrepreneurship in Azerbaijan**

Private sector and entrepreneurship in Azerbaijan has been developing due to the privatisation process and other policies and reforms adopted and implemented by the government from the beginning of the transition process. The measures include improving the business environment in the country, provision of easier procedures

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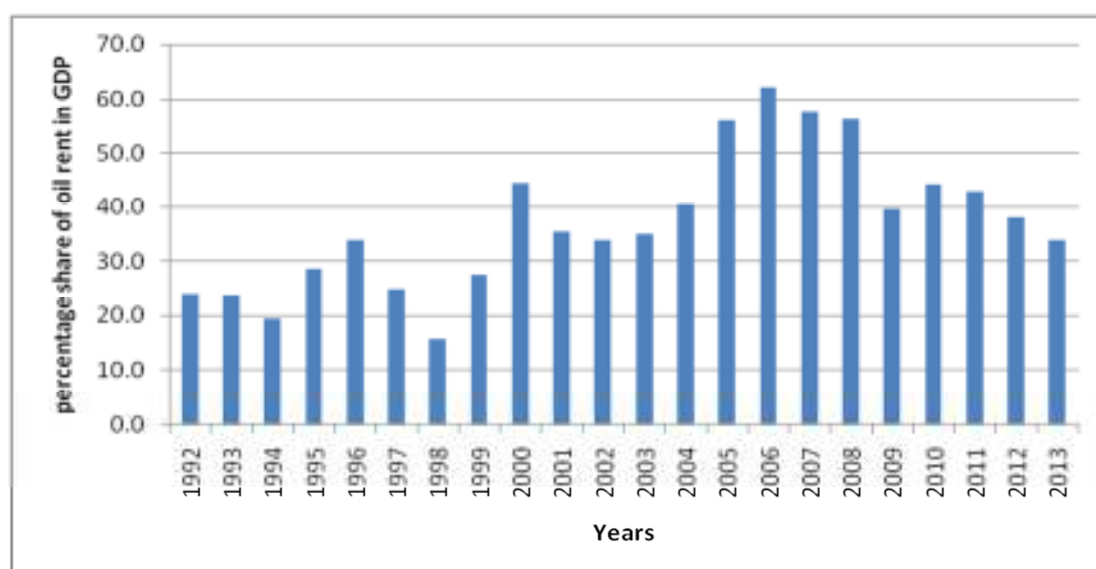
<sup>26</sup>"The State Programme on Socio-economic Development of the Regions of the Republic of Azerbaijan (2004-2008)" approved by Presidential Decree N 24 dated 11 February 2004

for starting a business, ensuring fair competition, strengthening state support for entrepreneurship, education of entrepreneurs, and other measures to improve the legal framework for private sector. Within the last ten years, the share of private sector in country's GDP has increased from 60 percent in 2004 to 81.9 percent in 2014 (**Figure 3.1**), with an increase of 2.8 percent from 2013. The share of non-government actors in agriculture, industry, trade, hotels and catering services, construction, transportation, communications, manufacturing and service sectors vary between 70 to 99.8 percent. Moreover, 73.4 per cent of employment in the economy is provided by the private sector.



**Figure 3.1:** Share of private sector in Azerbaijan economy 2004, 2014

The value-added of the non-oil sector has increased by 7 percent and the share of the non-oil sector in the GDP has reached 61 percent in 2014 (**Figure 3.2**).



**Figure 3.2:** Share of oil income in GDP in Azerbaijan

The total number of entrepreneurs in the country is around 614 thousand, of which 94 thousand (15.5 %) are legal entities (of which 75 thousand is SMEs, and 19 thousand is large scale enterprises), and 519 thousand (84.5 %) are individual entrepreneurs without forming legal entities.

Of the total number of entrepreneurs in the country, 37.2 percent of them are located in Baku and 62.8 percent are registered in the regions other than Baku.

In accordance with the market requirements, the development of SMEs has been continuous. The official classification of the SMEs is provided in **Table 3.2**.

**Table 3.2:** Definition of small entrepreneurship in Azerbaijan

| Entrepreneurship category   | Average number of employees (person) | Annual turnover (without VAT, excise) |
|---|--------------------------------------|---------------------------------------|
| Industry and construction   | < 50                                 | > 500 thousand AZN                    |
| Agriculture   | < 25                                 | > 250 thousand AZN                    |
| Wholesale trade   | < 15                                 | > 1 mln. AZN                          |
| Retail-store trade, transport, service and other types of economic activities | < 10                                 | > 250 mln. AZN                        |
| Source: Ministry of Economy and Industry of the Republic of Azerbaijan        |                                      |                                       |

As of January 2015, the small businesses made up 79.4 percent of total number of enterprises in the country.

The tables below provide the sectorial and regional distribution of the SMEs and the individual entrepreneurs.

Individuals engaged in business without a legal entity, 81.0 percent are male, while 19.0 per cent were women. 39.4 per cent of women entrepreneurs in Baku, Aran 16.3 percent, 15.0 percent of the Ganja-Kazakh<sup>27</sup>, and the rest were registered in other regions.

The share of small entrepreneurship subjects in the economy of the country has been increasing over the years. However, it is still modest in the overall economy and in the non-oil sector. They account for 3% of the total value added in the country (5.4% in non-oil), and 7.9% of the average annual employment (8.1 % in non-oil sector).

The distribution of the small entrepreneurship subjects by regions of Azerbaijan is given in **Table 3.3**. In 2013, Aran economic region has the highest share (18%) of

<sup>27</sup> Interchangably spelled as Ganja-Qazax as it appears in different official documents

the SMEs in the country, followed by Ganja-Gazakh economic region with a share of 13%.

**Table 3.3:** Distribution of small entrepreneurship subjects by regions of the country.

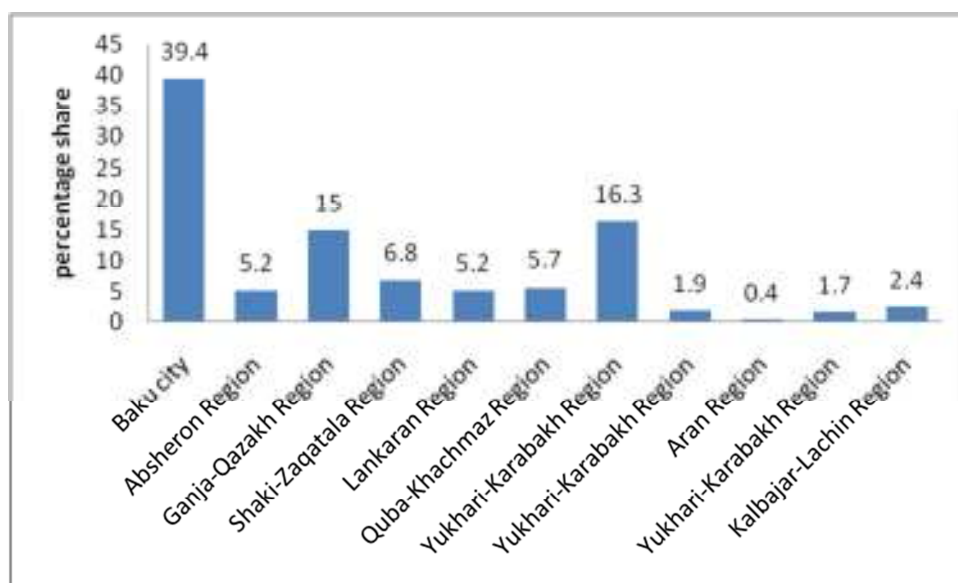
|   | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|------|------|------|------|------|------|
|   | %    | %    | %    | %    | %    | %    |
| <b>Baku city</b>                              | 36   | 38   | 37   | 36   | 36   | 36   |
| Absheron economic region                      | 7    | 8    | 8    | 8    | 8    | 6    |
| Ganja-Gazakh economic region                  | 13   | 12   | 12   | 12   | 12   | 13   |
| Sheki-Zaqatala economic region                | 6    | 6    | 6    | 6    | 6    | 6    |
| Lankaran economic region                      | 6    | 6    | 6    | 7    | 7    | 7    |
| Guba-Khachmaz economic region                 | 5    | 5    | 5    | 5    | 5    | 5    |
| Aran economic region                          | 19   | 17   | 18   | 18   | 18   | 18   |
| YukhariGarabagh economic region <sup>28</sup> | 1    | 1    | 1    | 1    | 2    | 2    |
| Kelbajar-Lachyn economic region <sup>29</sup> | 0    | 0    | 0    | 0    | 0    | 0    |
| Daglig-Shirvan economic region                | 2    | 2    | 2    | 2    | 3    | 3    |
| Nakhchyvan economic region                    | 5    | 4    | 4    | 4    | 4    | 4    |

Total population of Azerbaijan is around 9.593 million and women make up half (50.2 %) of the population by early 2015. Labour force participation rate for men and women are almost at par (73 and 68 percent respectively), however, women make up only 19 % of the individual entrepreneurs in the country (İqtisadiyyat və Sənaye Nazirliyi). When the share of women entrepreneurs in the total number of entrepreneurs within the regions is considered, it can be seen that women's share is higher than the national average in regions Ganja-Kazakh (22.6 percent) and Sheki-

Khojavand, Khojaly, Shusha, Jabrail regions and Khankandi city is completely under Armenian occupation, Agdam and Fuzuli regions are partly (state.gov.az).

<sup>29</sup>Figures for Kelbajar-Lachyn economic region are not available since all of its administrative regions are occupied by Armenians (state.gov.az).

Zaqatala (20.6 percent). Clearly, these numbers do not reflect the women's share in the population of the country. The regional distribution of the individual women entrepreneurs in Azerbaijan is given in **Figure 3.3**.



**Figure 3.3:** Distribution of individual women entrepreneurs in Azerbaijan by region

Azerbaijani women face the problems which are almost universal to all the women entrepreneurs worldwide, and some problems which are more relevant in the Azerbaijani case given the cultural background of the country and the transition context.

Lack of knowledge of women on business planning, micro-crediting and financial reporting as well as problems with getting low-interest loans are among the reasons impeding women to do small and medium business. Low level of property ownership, stereotypes against women in the society, traditional dependence of woman from her family and others further constraints the entrepreneurial activities of women in Azerbaijan.

Passiveness of women in labour market, their inability to work after hours and requirement not to work put by husbands can also be related to national traditions and customs (CRS, 2013). The existing traditional stereotypes of the image of woman in society, whose role is limited by the boundaries of family, is an important reason for the low participation of women in social, political and public life of the country (MFA-AZ, 2015a).

Women entrepreneurs in Azerbaijan mainly have their businesses in light industry, textile industry, carpet-weaving, commercial art, traditional handicraft, food industry, agriculture, trade and service spheres (CRS, 2013), which are labour intensive and not among the leading export sectors of the country. Gender distribution of individual entrepreneurs is given in **Table 3.4**.

**Table 3.4:** Individual entrepreneurs by type of economic activity, by gender, 2013.

|   | Men            |              | Women         |              |
|---|----------------|--------------|---------------|--------------|
|   | Number         | % share      | Number        | % share      |
| <b>Total</b>  | <b>358,672</b> | <b>100.0</b> | <b>73,469</b> | <b>100.0</b> |
| of which:   |                |              |               |              |
| agriculture, forestry and fishing   | 41,155         | 11.5         | 7,740         | 10.5         |
| mining and quarrying  | 497            | 0.1          | 29            | 0.0          |
| Manufacturing   | 10,936         | 3.0          | 1,643         | 2.2          |
| electricity, gas, steam production, distribution and supply                     | 83             | 0.0          | 6             | 0.0          |
| water supply, waste treatment and disposal                                      | 134            | 0.0          | 11            | 0.0          |
| construction  | 4142           | 1.2          | 111           | 0.2          |
| trade; repair of transport means  | 137,344        | 38.3         | 34,302        | 46.7         |
| transportation and storage  | 73,750         | 20.6         | 1,011         | 1.4          |
| accommodation and food service activities                                       | 19,934         | 5.6          | 3,130         | 4.3          |
| information and communication   | 3987           | 1.1          | 811           | 1.1          |
| financial and insurance activities  | 924            | 0.3          | 250           | 0.3          |
| real estate activities  | 5,410          | 1.5          | 2,670         | 3.6          |
| professional, scientific and technical activities                               | 4964           | 1.4          | 2158          | 2.9          |
| administrative and support service activities                                   | 2500           | 0.7          | 605           | 0.8          |
| education   | 722            | 0.2          | 1044          | 1.4          |
| human health and social work activities   | 1569           | 0.4          | 495           | 0.7          |
| arts, entertainment and recreation  | 4988           | 1.4          | 503           | 0.7          |
| other service activities  | 42757          | 11.9         | 15976         | 21.7         |
| household activities, the goods and services produced by households for own use | 2876           | 0.8          | 974           | 1.3          |

In the process of transition, especially in the rural areas, closure of many children institutions or significant limitation of their activities, increase in service fees and lack of services meant that women had to take care of their children therefore were kept away from public life and income generating work (CRS, 2013). However, a study based on the survey data form Life in Transition (2010) of the European Bank for Reconstruction and Development finds out that, in Azerbaijan although women are less likely to be latent entrepreneurs, i.e. those who are not entrepreneurs but want to be, when they attempt to start a business, they are just as likely to succeed as men are (Kuriakose, 2013).

In recent years, there has been an increase in the number of women entrepreneurs (İqtisadiyyat və Sənaye Nazirliyi). There are various reasons for the Government of Azerbaijan to pursue policies to promote women entrepreneurship, some of which are necessitated by the transition process and some of them to just simply remove obstructions before a balanced social development in the country. The Ministry of Economy and Industry of Azerbaijan links women entrepreneurship to development, poverty reduction, provision of employment and in many cases, elimination of gender inequality in society (İqtisadiyyat və Sənaye Nazirliyi).

### **3.4 Azerbaijan's regional development strategy**

The major document reflecting Azerbaijan's regional development strategy is the State Program on Social-Economic Development of Regions. So far, three such programs were prepared covering the periods 2004-2008, 2009-2013 and 2014-2018. A study of these programs yield the following results about Azerbaijan's regional development strategy.

#### **The economic regions<sup>30</sup>**

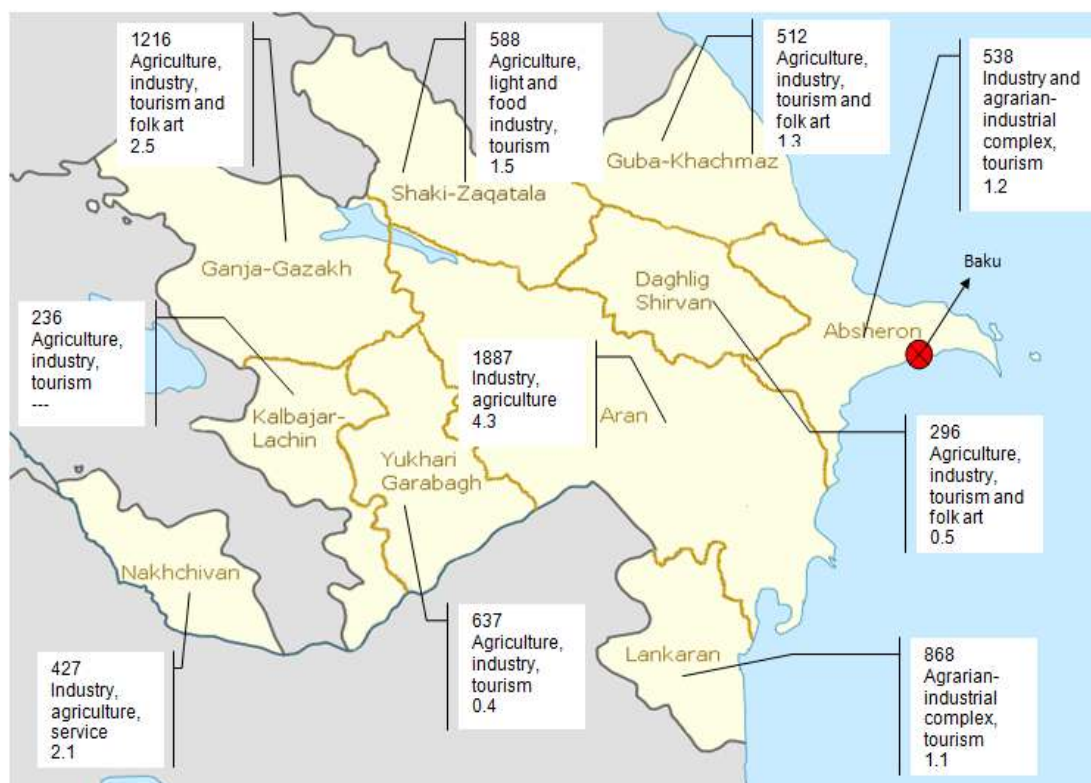
Ten economic regions of Azerbaijan excluding its capital Baku were established in 2004 taking into consideration their general characteristics determined by the Presidential Decree on the State Program on Socio-Economic Development of Regions of the Azerbaijan Republic (2004-2008). A general overview of the economic regions with main economic indicators (population in thousands, main

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<sup>30</sup> Information based on writtendocumentprovidedbytheMinistry of Economyand Development of theRepublic of Azerbaijan on request of theauthor of thisthesis



economic sectors, and gross product in million AZN respectively) is given in **Figure 3.4**.



**Figure 3.4:** Main economic indicators of the economic regions of Azerbaijan

Efficient use of existing capacity of the regions, creating new jobs, developing the agricultural sector, and other industrial sectors, extending the scope of processing agricultural products, and some other measures were deemed necessary in order to increase the success of the reforms carried out in recent years, to develop all regions in the country in socio-economic terms and to improve the well-being of the population.

To this end, the classification of regions as adopted in the state program was aimed at more efficient use of the existing potential of the regions, a certain the degree of specialization in different areas of the economy and improving its structure.

It is well known that the economic regions of the country differ from each other in terms of their economic potentials, scale and range of natural resources and level of employment. The distinguishing factors for the regions in terms of economy, geography and history are the following:

- economic and geographical position;

- natural conditions and resources;
- level of settlement of the population;
- region's area and terrain;
- historical development characteristics.

In addition to the above factors, for the disparities between the regions and that most of the regions' weak socio-economic development, the role of the following should be noted:

1. Disproportionate distribution of factors of production created dramatic differences between the regions in terms of their socio-economic development levels. So, concentration of economic infrastructure, especially that of industry in Baku resulted in faster development of Baku in comparison to other regions, and this caused the worsening of socio-economic situation in other regions and an eventual influx of population from other regions to Baku.
2. As a result of aggression of Armenia against Azerbaijan, 20 percent of the country's territory was occupied, which resulted in ravaged economic potential of the occupied regions, destroyed production and technical and infrastructure facilities, many people lost their lives, and around one million citizens lost their homes, work places, wealth and have become refugees in their homeland.
3. Most of the people living in the economic regions became owners of land and other real estate as a result of land and agricultural reforms carried out in Azerbaijan, however, the scarcity of capital, as well as enabling conditions for the development of the agricultural sector, technology, services, consulting services, infrastructure, processing facilities etc. limit the effective use of available resources.

### **State Program on Social-Economic Development of Regions 2004-2008**

The need for promoting the social-economic development of the regions arises from the fact that the country's industrial potential and large part of infrastructure was in the capital, Baku city, and combined with the weakness of manufacturing and services sector in the economic regions, this meant that more and more people from the regions migrated to Baku. This led to regional disparities which brought together social-economic, demographic and ecological problems in many localities. Therefore, the priority was to reduce and ultimately eliminate regional disparities, by

utilizing the local resources and materialising the regions' potential. The main aim of the program is stated as follows:

“implementation in a consistent and coordinated manner of measures directed at ensuring efficient use of internal resources of economic regions of Azerbaijan Republic, development of sectors bearing particular importance for the economic regions, further expansion of production activity of enterprises, stimulation of export-oriented production of goods, increase of employment levels through development of local entrepreneurship, further improvements in the living standards of population and dynamic development of the economy.”

In order to reach existing objectives the implementation of following duties is considered:

- Renewal and development of economic operation in enterprises, creation of new production enterprises;
- Increase of effective use of local resources;
- Creation and development of necessary infrastructure for the development of regions;
- Acceleration of the second phase of reforms in agriculture, in this order to render assistance to farmers and other farming workers, such as organization of different service centers, development of seed production, better supply of agricultural machines to farmers, and other necessary measures;
- Creation of enabling conditions for attraction of national and foreign investors to the regions;
- Creation of new jobs;
- Improved provision of regions' population with utility services.

The following financial sources were considered for funding the activities planned within the program:

- Local and foreign investments;
- State Budget of Azerbaijan Republic;
- National Fund for Support of Entrepreneurship in Azerbaijan Republic;
- Extra-budgetary funds;
- Credits given by commercial banks and non-bank credit organizations;

- Financial resources of international organizations and foreign countries;
- Other lawful resources.

### **State Program on Social-Economic Development of Regions 2009-2013**

The second programme (State Program on Social-Economic Development of Regions 2009-2013) states that in terms of the socio-economic development of the economic regions of the country, the successful implementation of the tasks set in the previous programme (State Program on Social-Economic Development of Regions 2004-2008) was important. In this regard, within the previous program's period (2004-2008) substantial progress had been achieved in sustainable development of the non-oil sector (although this was not set as a priority goal in the first programme), in creation of new enterprises and job places, in rise of quality and quantity of provision of public utilities and social infrastructure in regions, as well as, in Baku city, in further improvement of business climate, increase of employment of population and in decrease of poverty level. Therefore, "The State Program on Socio-Economic Development of Regions for 2009-2013 years" was prepared in order to build on the achievements of the previous programme.

The main goal of the programme covering 2009-2013 period was stated as "achieving acceleration of development of the non-oil sector, diversification of the economy, balanced regional and sustainable socio-economic development, as well as, further improvement of welfare of the population in the country."

In order to achieve these goals, the Program foresaw implementation of following tasks:

- To ensure fast development of the non-oil sector, while efficiently using natural and labour resources of the country;
- To carry on measures aimed at improving infrastructure provision;
- To implement purposeful measures on improvement of business climate and further acceleration of development of entrepreneurship;
- To continue attracting investment for development of the economy;
- To stimulate production of export oriented goods;

- To establish modern infrastructure facilities and align existing facilities to international standards;
- To improve provision of population with public services;
- To carry on measures aimed at improving employment of population;
- To decrease poverty level.

The following financial sources were considered for funding the activities planned within the program:

- The State Budget of Azerbaijan Republic;
- Non-budgetary state funds;
- Funds of enterprises, entities and organizations regardless of their property type;
- Funds of “The National Fund for Entrepreneurship Support”
- and “The Azerbaijan Investment Company” OJSC;
- Funds of local and foreign businessmen;
- Financial resources of international organizations and foreign states;
- Other sources not prohibited by the legislation.

### **State Program on Social-Economic Development of Regions 2014-2018**

The main objective of the "State Programme on Socio-Economic Development of Regions of the Republic of Azerbaijan for 2014-2018 Years" is stated as the continuation of activities aimed at the development of the non-oil sector, diversification of economy, rapid development of regions, in particular, further improvement of infrastructure and social services related to rural development.

The leading tasks set to achieve the objectives of the Programme are:

- Infrastructure provision in regions, including provision of population with public utility services;
- boosting the development of entrepreneurship aiming at export-oriented and competitive production;

- raising employment level and reducing poverty level of population, especially, of rural population.

### **National Fund for Entrepreneurship Support (ANFES)<sup>31</sup>**

Azerbaijan's National Fund for Entrepreneurship Support (ANFES) was established with the main objective of providing financial support to the development of small and medium entrepreneurship. The main types of economic activities that the fund supports are mainly related to

- (i) production of agricultural products (including establishment of meat and dairy oriented modern cattle breeding complexes, establishment or reconstruction of modern poultry farms, establishment of large scale grain or seed-growing farms, development of vine-growing and vine-making, establishment of greenhouse complexes, intensive horticulture and seedling farming, intensive development of tea growing and citrus fruit growing and expansion of productive potato and onion planting)
- (ii) production of competitive and export oriented food and other industrial products with usage of modern technologies (including establishment of fruit and vegetable processing units, establishment of bakeries and establishment of slaughter houses),
- (iii) establishment of modern cold storage complexes (including establishment of enterprises producing and processing industrial products using modern technologies), and finally,
- (iv) development of small entrepreneurship (ensuring involvement of young people, Internally Displaced Persons and women to entrepreneurship activity).

Supporting women entrepreneurs is one of the priority areas, within the context of safeguarding vulnerable groups rather than seeing them as an under-used source of human capital.

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<sup>31</sup>Compiled and translated from the documents of Ministry of Economy and Development of the Republic of Azerbaijan

## **4. ANALYSES AND FINDINGS**

### **4.1 Content analysis**

#### **4.1.1 State Program on Social-Economic Development of Regions 2004-2008: Focus on entrepreneurship and women entrepreneurship**

In the first State Program on Social-Economic Development of Regions covering the period 2004-2008, the role of entrepreneurship and that of small and medium enterprises in the economic regions and especially the role they play in creating jobs in the regions is acknowledged and the need to support their further development is emphasized.

The main problems are cited as the lack of entrepreneurial activities in the production-oriented sectors, limited access to finance, weak development of market infrastructures, the huge need for providing information and consulting services, and inadequate level of investment in the regions.

Although the need for enhancing the activities of entrepreneurship and especially the small and medium sized enterprises is highlighted, there is no specific mention of women entrepreneurship.

#### **4.1.2 State Program on Social-Economic Development of Regions 2009-2013: Focus on entrepreneurship and women entrepreneurship**

In the State Program on Social-Economic Development of Regions 2009-2013, it can be said that there was a bigger emphasis on the development of entrepreneurship especially in relation to the stated need for diversifying the economy of the country. As stated above, tasks of the State Program and priority directions of regional development includes "implementing purposeful measures on improvement of business climate and further acceleration of development of entrepreneurship".

The entrepreneurship policy was directed at improving the legal and regulatory, organizational and financial foundations of the business environment, especially, those which are important for development. In this regard, the following measures were planned in entrepreneurship sphere with a view to ensuring economic development:

- to accelerate integration of small and medium entrepreneurship (SME) into the world economy, as well as, strengthening the role of SMEs in increasing export potential and solving social problems of society;
- to optimize structure of entrepreneurship activity in terms of area, regional and technological aspects;
- to expand mutual effective relations, including, production cooperation ties among small, medium and large enterprises;
- to establish modern organizational models for support to entrepreneurship, including, continuation of consultation services, information provision, marketing and other structures for entrepreneurs;
- to establish trade fairs;
- to create centres for advancing vocational training for jobless people;
- to prevent interventions in entrepreneurship activities.

Furthermore, some tasks related to entrepreneurship are adopted under different policy areas such as:

- to implement tax-customs policy aimed at promotion of entrepreneurship - **Tax policy**

- to establish computer terminals and private tax consultation services with a view to improving and scaling up tax services provided to entrepreneurs - **Tax policy**

- to create more favourable condition for development of entrepreneurship, especially small and medium size enterprises - **Employment policy**

- to support entrepreneurship activities in energy sector - **Energy policy**

- expanding entrepreneurship in ICT sector - **Communication and information technologies policy**.



Furthermore, local administrations such as municipalities, etc. are given the task to take an active part in solution of social problems of population and implementation of important actions related to development of regions, including, formation of new economic relations, *development of entrepreneurship*, creation of quality and mutual ties among economic entities.

Although the need for enhancing the activities of entrepreneurship and especially the small and medium sized enterprises is highlighted, there is no specific mention of women entrepreneurship.

#### **4.1.3 State Program on Social-Economic Development of Regions 2014-2018: Focus on entrepreneurship and women entrepreneurship**

The centre of attention in terms of entrepreneurship policy is still on providing a sound legal, institutional and market infrastructure for entrepreneurial activities, however, a new dimension seems to be the production of high quality, export-oriented and competitive products whereas a perspective of cooperation relationship between the SMEs and large enterprises in the regions is also brought in. The main activities planned for the period covered by the Program are listed as follows:

- Continue further improvement of legal and regulatory framework for business activity
- Further improvement of other institutional mechanisms for state-business relations
- Further improvement of financial provision for entrepreneurs in regions
- Further improvement of the production, market and social infrastructure for entrepreneurship, including acceleration of development of modern market infrastructure mechanisms (finance, banking and insurance system, stock market, audit, hypothecation, leasing, franchising services)
- Support for efficient cooperation between small, medium and large enterprises in regions, including expansion and strengthening production-cooperation relationships

The main text of the State Program on Social-Economic Development of Regions 2014-2018 does not include any reference to policies for supporting women entrepreneurship in the country. However, in the Action Plan prepared for the Programme, the task of "supporting involvement in entrepreneurship of vulnerable

groups of population, including youth, woman, IDPs and disabled" is given to the Ministry of Economy and Industry and local executive powers under the "Measures on development of industry and agriculture sector". An overall outlook of entrepreneurship and women entrepreneurship focus in three of the State Programs on Social-Economic Development of Regions is provided in **Table 4.1**.

**Table 4.1:** Entrepreneurship and women entrepreneurship focus in State Programs on Social-Economic Development of Regions.

|                     | <b>Entrepreneurship</b>  | <b>Women entrepreneurship</b>   |
|---------------------|--|---|
| SDSEDR<br>2004-2008 | <p><b>Emphasis on the need to develop, especially in relation to its central role in job creation</b></p> <p><b>Problems:</b></p> <ul style="list-style-type: none"> <li>- lack of entrepreneurial activities in the production-oriented sectors,</li> <li>- limited access to finance,</li> <li>- weak development of market infrastructures,</li> <li>- need for providing information and consulting services,</li> <li>- inadequate level of investment in the regions</li> </ul>  | No mention  |
| SDSEDR<br>2009-2013 | <p><b>Stronger emphasis in relation to the need for diversifying the economy</b></p> <p><b>Problems:</b></p> <ul style="list-style-type: none"> <li>- inadequate level of legal and regulatory, organizational and financial infrastructure,</li> <li>- the need for improved market access,</li> <li>- the need for consultation services and training</li> </ul>   | No mention  |
| SDSEDR<br>2014-2018 | <p><b>Its relation to the production of high quality, export-oriented and competitive products is highlighted</b></p> <p><b>Problems:</b></p> <ul style="list-style-type: none"> <li>- need for further improvement of legal and regulatory framework,</li> <li>- need for further improvement of other institutional mechanisms,</li> <li>- need for further improvement of financial provisions,</li> <li>- need or further improvement of the production, market and social infrastructure,</li> <li>- inadequate level of cooperation between small, medium and large enterprises</li> </ul> | <p>Mentioned in the Action Plan under the "Measures on development of industry and agriculture sector" to be executed by the Ministry of Economy and Industry and local executive power,</p> <p><b>"Support involvement in entrepreneurship of vulnerable groups of population, including youth, woman, IDPs and disabled "</b></p> |

## 4.2 "MOS Model" in Azerbaijan context

Stevenson and Lundström's (2005) "MOS Model" provides a framework of entrepreneurship policy measures where the government policies can be categorised according to the measures which influence the individuals' Motivations (M), Opportunities (O) and Skills (S) and competence to encourage them for entrepreneurship.

The tables applying this framework to the policies implemented by the Azerbaijani government in periods covered by two of the State Programs on social-economic development of the regions of the Republic of Azerbaijan for (2004-2008) and (2009-2013) (and not 2014-2018 as the mentioned period is still on) are provided in Appendix B. The framework is also applied to the policies for women entrepreneurs covering all periods and provided in **Table 4.2**.

**Table 4.2:** Classification of policies for supporting women entrepreneurs in Azerbaijan, 2004-2013

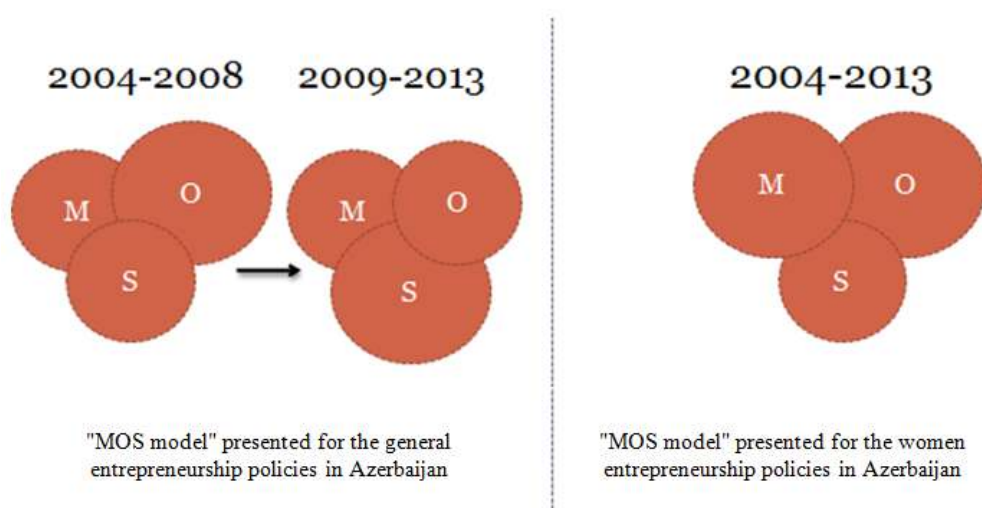
| Policy area  | Policy measure   | M/O/S |
|--|--|-------|
| entrepreneurship promotion   | events, conferences, business forums, seminars organized   | M     |
| entrepreneurship education   | participation of women is ensured in training programs for entrepreneurs   | S / M |
| reducing administrative, legislative and regulatory barriers to entry and exit | General measures applicable  | O     |
| business support for start-ups   |  |       |
| start-up and seed financing  | Financial support through preferential credits lent by the authorized banks  | O     |
|  | A total of AZN 55.5 million worth concessional loans were granted to 2773 women within the period 2002-2014, with the aim of establishing 3460 new enterprises |       |
|  | In 2014 alone, AZN 9.3 million concessional loans were granted to 703 women with the aim of establishing 1377 new enterprises                                  |       |
| target group measures  |  |       |

In the period 2004-2008 covered by the first State Program, the major focus in terms of the MOS framework is mostly on Opportunity Factors with the greatest emphasis on reducing administrative, legislative and regulatory barriers to entry and exit. In the period covered by the second programme, 2009-2013, the major focus seems to have partly shifted to Skills Factors with a focus on dissemination of information.

Efforts to promote self-employment among women seem to have been increasing over the years. However, targeted measures for women entrepreneurs, especially in the regional context have remained limited throughout the course of the first two Programs, as there is no stated focus on promoting women's entrepreneurial activities in the region.

However, in other documents outlining the work on women entrepreneurs, we see that certain steps have been taken especially for them. Nonetheless, most of the efforts putting women in the centre are actually part of the general attempt at increasing entrepreneurial activities in the country. For women entrepreneurs, increasing Motivation and Skills (with a stronger emphasis on Motivation) by organizing events and training programs seems to have an emphasis on them in addition to the measures providing funding for the establishment and early stages of firms.

Presentation of the “MOS Model” for general entrepreneurship policies and policies for women entrepreneurship in Azerbaijan is given in **Figure 4.1**.



**Figure 4.1: "MOS" Model presentation**

### 4.3 "The formulation" in Azerbaijan's case

In Section 2.4.3, we argued that the number of new employees ( $m$ ) (i.e. growth in employment in the region) is directly proportional to the amount of government spending on programs for encouraging women entrepreneurship.

We suggested that the human capital migration model proposed by Hart (1975) can be applied to women entrepreneurs in the sense that the decision making process of a potential migrant on whether or not to move to another location for reaping the benefits of his/her human capital could be likened to the decision making process of a woman in a certain locality whether or not to take up entrepreneurship as a way of utilising her human capital without physically moving to another location.

We justify this formulation by making references to migration, human capital and endogenous growth theories. Although this formulation gives us an intuitive outcome, it is there to see the effects of different dynamics in relation to each other in the process of supporting women entrepreneurship with the aim of boosting regional development and creating employment particularly. It is a thinking tool and not necessarily to be used to make precise calculations.

We based our argument on a few assumptions. Our first assumption was that a woman would consider entrepreneurship only if *ceteris paribus* the expected value of utility derived from the present value of her expected returns as a person, who is not participating in the work force, is less than that which can be earned in entrepreneurial activity minus the costs associated with setting up her own business. Our other standing point was that the government would run these programs only if the cost that the government bears to run these programs is less than the cost of supporting unemployed women. It was also demonstrated that the argument holds in the case of UK's Rural Growth Network pilot programs using the data from three different regions.

In the case of Azerbaijan, unfortunately, information on government spending on women entrepreneurship support programmes is not available on a regional basis. Therefore, as a proxy, we could use the total amount of concessional loans provided by Azerbaijan's National Fund for Entrepreneurship Support (ANFES) to women entrepreneurs, the number of beneficiary women and the employment they have created over the years (**Table 4.5**).

**Table 4.5:** Concessional loans given to women entrepreneurs by ANFES

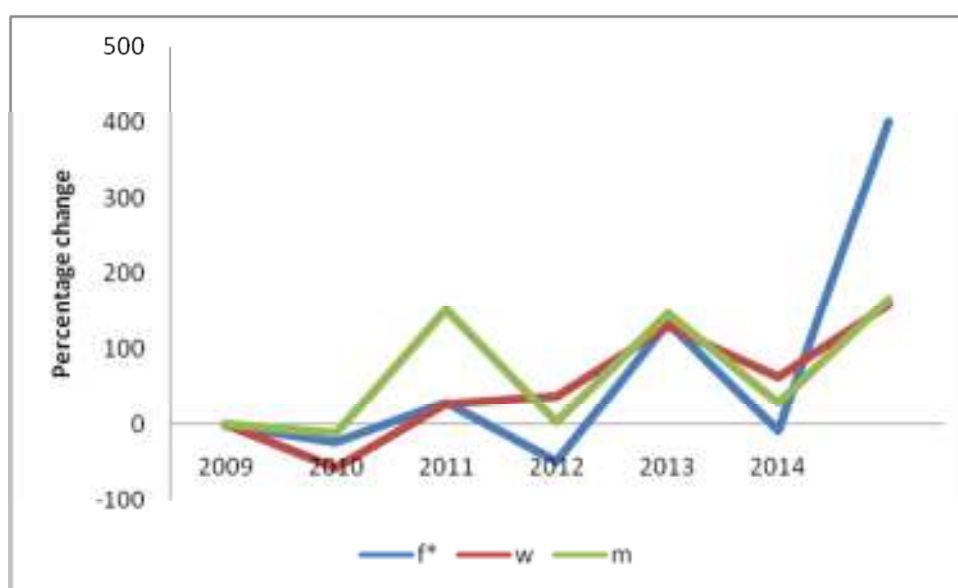
|              | f           | f*          | w           | m           |
|--------------|-------------|-------------|-------------|-------------|
| <b>Years</b> |             |             |             |             |
| 2009         | 5.9         | 5.9         | 247         | 188         |
| 2010         | 4.9         | 4.6         | 107         | 167         |
| 2011         | 6.8         | 6.0         | 137         | 419         |
| 2012         | 3.6         | 3.1         | 188         | 433         |
| 2013         | 9.3         | 7.3         | 430         | 1064        |
| 2014         | 9.3         | 6.7         | 703         | 1377        |
| <b>TOTAL</b> | <b>39.8</b> | <b>33.6</b> | <b>1812</b> | <b>3648</b> |

f: total amount of concessional loans (in million AZN)

f\*: deflated f<sup>3233</sup>

w: the number of beneficiaries

m: number of jobs created

**Figure 4.2:** Trends in government spending, number of women entrepreneurs benefitting from government programmes and employment created

When we look at the amount of public money deflated by the inflation rate and the corresponding employment levels, there doesn't seem to be direct proportionality.

<sup>32</sup> As the data is read over the years, it is appropriate to deflate monetary figures

<sup>33</sup> deflated by Inflation figures provided by World Bank  
<http://data.worldbank.org/indicator/FP.CPI.TOTL.ZG>

However, when we compare the percentage increase (or decrease) in the government spending for such programmes to the percentage increase (or decrease) in the number of jobs created (and the number of beneficiaries) there seems to be parallel trends (Figure 4.2).

#### **4.4 The Survey analysis and results**

In this section, we will look at how the women perceive the women entrepreneurship policies of the government, and how much of a difference their entrepreneurship activities are making in their region.

This is important because the role of women in the economic life of societies has long been overlooked. However, their instrumental role in development efforts of countries has started to appear under the limelight of the academia and international aid organizations. A call for action at the 4th United Nations World Conference on Women in Beijing in 1995 said that the empowerment of women and gender equality were prerequisites for achieving political, social, economic, cultural, and environmental security among all peoples (UN, 1995).

This is mainly because women have been shown to spend more of their income on their households; therefore, when women are helped to increase their incomes, the welfare of the whole family is improved (Cheston&Kuhn, 2002). Generally, women's success benefits more than one person. Several institutions confirmed the well-documented fact that women are more likely than men to spend their profits on household and family needs. Assisting women therefore generates a multiplier effect that enlarges the impact of the institutions' activities (Deshpanda, 2001). There is more evidence that women spend their income on their children's education, diet, healthcare and clothing (WEDTF, 2001).

According to a study conducted in some cities of Mexico, women tend to keep nothing back from their earnings for themselves (as opposed to men contributing only 50 to 68 % of their income to the household money), with the result that more money is usually available in women-headed households for collective household expenditure (Chant, 1997).

The results of the studies are increasingly taken into consideration by political figures. The former Secretary of State of the United States of America, Mrs. Clinton

acknowledged these studies when she said "they show that women and girls reinvest an average of 90 percent of their income in their families, compared to a 30 to 40 percent reinvestment rate for men. And they indicate that women's lack of economic empowerment not only imperils growth and poverty reduction, but also has negative effects ranging from poor education and health outcomes for children to the spread of HIV/AIDS."<sup>34</sup>

UNICEF is also one of the champions of women's empowerment. In its report of 2009, titled "State of the World's Children Special Edition" the importance of empowering women and eliminating gender discrimination was emphasized as it produces a double dividend – fulfilling the rights of women and also helping to save and improve the lives of children (UNICEF, 2009). So does the World Bank in its report on "Engendering Development through Gender Equality" where it says that female-headed households spend a far larger share of their income on food, healthcare and education, so that financial assistance to mothers has greater beneficial effects on family health than income in the hands of fathers (WB, 2001). OECD also draws attention to the same point and calls for aid donors to see women as active players in the economy and overall poverty reduction so that aid programmes are targeted more to maximising the economic contributions of women to both the formal and informal economies. Saying this, OECD advocates that aid could be directed towards developing income-generating initiatives based on women's traditional roles in home and health services, nutrition, and agriculture. Development assistance could empower women to compete in land, labour, product and financial markets (OECD, 2008).

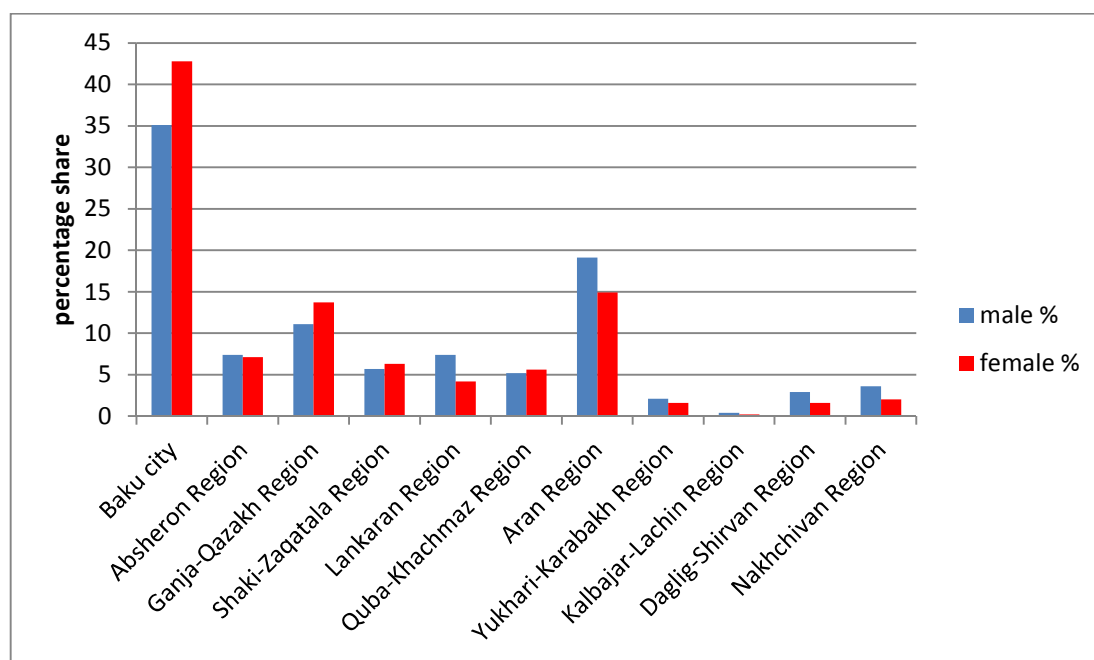
In order to see the effect of public policies for supporting women entrepreneurship at the regional level in Ganja-Qazax economic region of Azerbaijan, we have conducted a survey among the women entrepreneurs in this region. Ganja-Qazax region is the second biggest economic region of Azerbaijan by population out of 10. The reason why this region was chosen for the survey is that it also has the second biggest share (15 %) of the women entrepreneurs in the country by early 2015. Furthermore, it is one of the regions where the share of women entrepreneurs as a percentage of the total number of women entrepreneurs in the country is bigger than

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<sup>34</sup><http://www.state.gov/s/gwi/programs/womensfund/why/>



that of the male entrepreneurs by 2012 figures (**Figure 4.3**). Ganja-Qazax region has little less than 15 thousand women entrepreneurs and the "Azerbaycan Sahipkar Qadınlar İctimai Birliyi" (Women Entrepreneurs' Association of Azerbaijan) in Ganja city has around 5000 members. We have surveyed 50 of them.



**Figure 4.3:** Distribution of individual entrepreneurs in Azerbaijan, by gender, by region, 2012

Ahl (2006), in her review of the literature on women entrepreneurship, tells about the low response rates of surveys done with women entrepreneurs. In the questionnaire the fields for the respondents' names and contact details were left optional to provide anonymity. However, they gave their names and contact details and left some questions unanswered. These were the questions that involved information regarding their starting capital and current income levels. This could be due to the surveys being distributed by the representatives of their association rather than being held one to one, since they may not have wanted to give their business figures away to avoid comparison by their peers.

## Results

All of the respondents are married with children. The average age of the respondents is 54. An average women entrepreneur who joined the study would have 2 (1.9) children. Only 10 % of them need to look after their children on their own. All of the

respondents had prior working experience before becoming entrepreneurs. All of them had higher education.

With regards to their motivations to become an entrepreneur, their main motivation seems to be making money, but not necessarily earning a living for their families. The results also indicate that they did not want to work for others and wanted control over and freedom to make their own decisions. 40 percent of them also responded by saying that they had confidence in the products and services they offered.

**Table 4.6:** Survey results: motivations to start up a business

| <b>Motivations to start up a business</b>             | <b>Percentage of respondents</b> |
|---|----------------------------------|
| profit/making money                                   | 100                              |
| earn a living for my family                           | 0                                |
| did not want to work for others                       | 40                               |
| want for control and freedom to make my own decisions | 60                               |
| social status   | 0                                |
| self-achievement                                      | 0                                |
| confidence in the products / services offered         | 40                               |

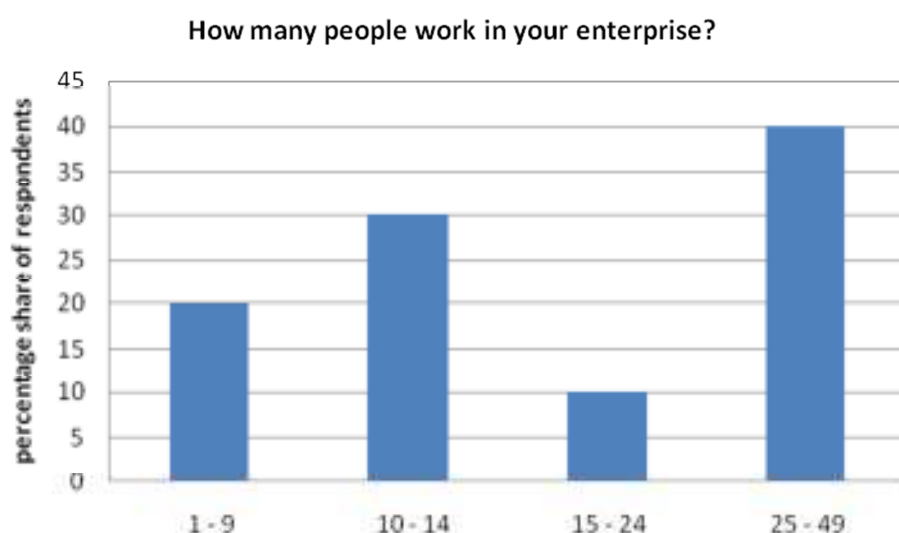
Moreover, the respondents said that the main obstacle they faced was raising capital. They also cited lack of information / advice on how to start an enterprise and difficulty in finding the right contacts for their businesses as other obstacles. Only 20 percent claim that they have not faced any major obstacles when starting up their business.

**Table 4.7:** Survey results: obstacles faced when starting a business

| <b>Obstacles faced when starting a business</b>            | <b>Percentage of respondents</b> |
|--|----------------------------------|
| no obstacles   | 20                               |
| a question of self confidence                              | 0                                |
| financial questions (raising capital)                      | 80                               |
| lack of information / advice on how to start an enterprise | 30                               |
| finding the right contacts for your business venture       | 30                               |
| combining family and work life                             | 0                                |
| others   | 0                                |

## Impact

In order to understand the impact of the entrepreneurial activities of the women on the local economy and the development of the region, respondents were asked how many people worked in their workplaces including themselves, what the level of their initial capital was (with the hope that a link could be established with the level of their turnover), the number of dependants, how much of their income they spent on their families, and if they were selling goods/services to other cities/countries. We have the following results:



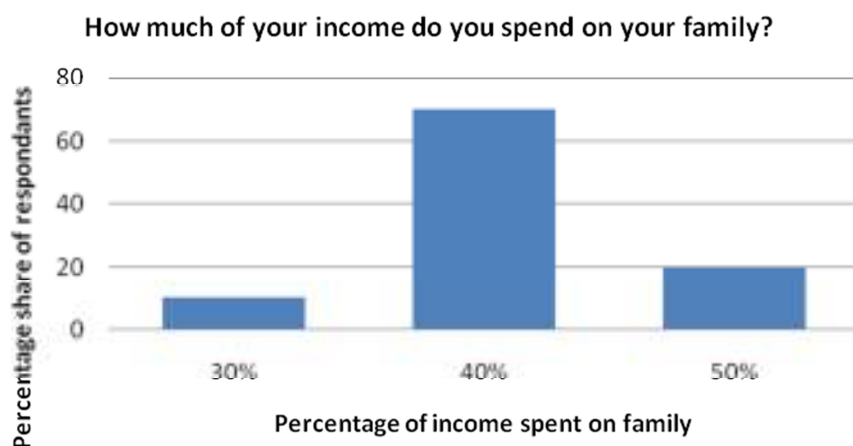
**Figure 4.4:** Survey results: number of employees

The median respondent's enterprise would provide jobs for 10-14 employees (including herself) (**Figure 4.4**). The ranges of number of employees are adapted to the official definition of SMEs in Azerbaijan as shown in **Table 3.2**.

The number of people that these women need to look after is exactly the same as the number of their children, which indicates that they do not support their extended families - or husbands. All of them said that their lives changed for the better after they started their own businesses.

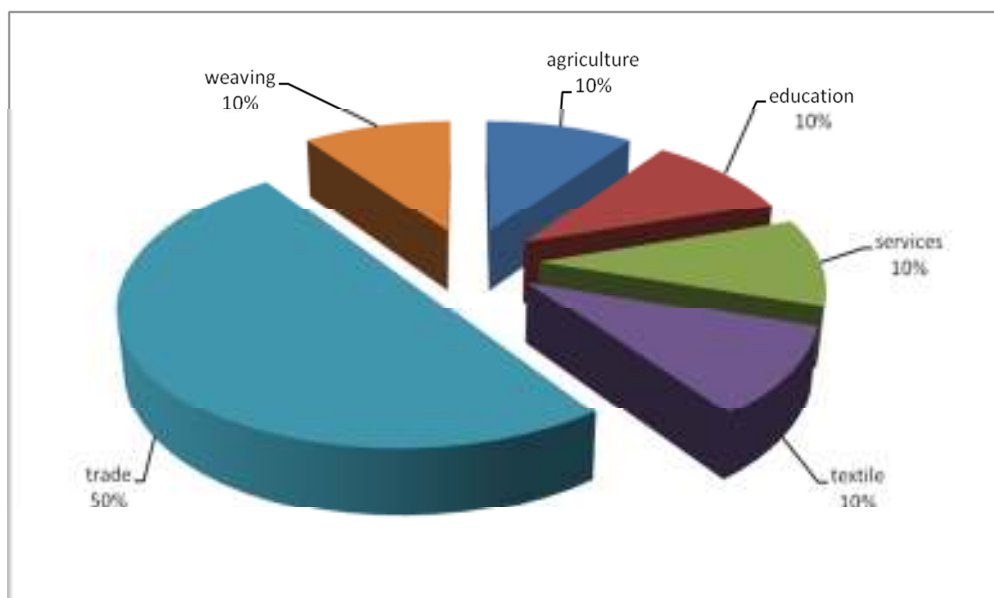
The spending patterns of the respondents within the scope of this study in terms of the percentage of income spent on their families indicate that the average amount spent on family is 41% of their incomes (**Figure 4.5**). More than 60 percent of the respondents spend 40 percent of their income on their families. Only 20 percent spend

half of their incomes on their families, and none of them spends more than 50 percent.



**Figure 4.5:** Survey results: share of income spent on family

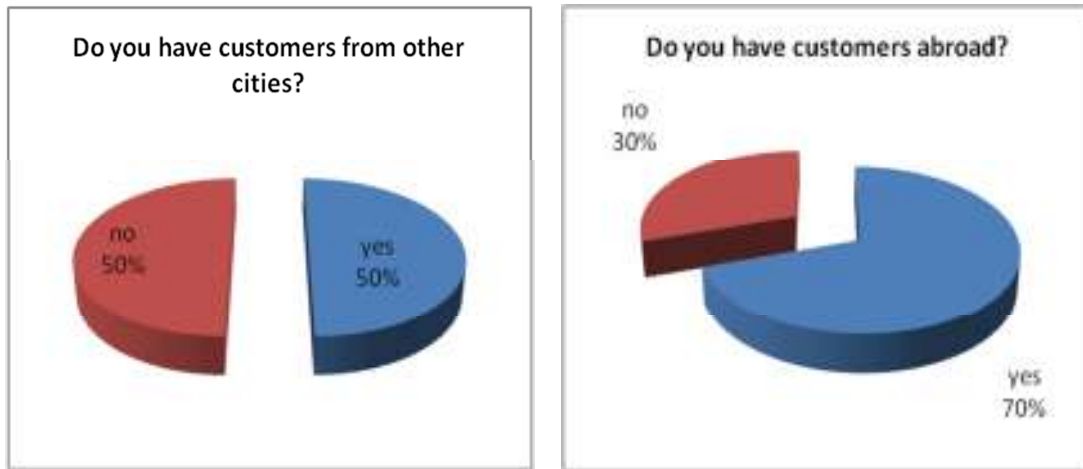
Half of the respondents are in trade sector, while others are divided equally between agriculture, education, textile, services and weaving (**Figure 4.6**).



**Figure 4.6:** Survey results: Sector distribution of respondents

When asked about their business ties with outside their locality, 50 percent of them answered that they sell goods/services to outside of their city. Moreover, 70 percent

of them said that they were exporting abroad (**Figure 4.7**). None of them answered the questions about their initial capital and their current income.



**Figure 4.7:** Survey results: Non-local business ties

### **Perception of government support**

In order to understand women entrepreneurs' perception of the impact of the government support for women entrepreneurship, we have asked them the following questions:

- Have you benefited from government support when you were setting up your business?
- Do you believe that government support was useful?
- Could you have set up your business without government support?
- Do you think that government should do more to support women entrepreneurship?
- Do you feel disadvantaged in comparison to the male entrepreneurs?

All of the respondents benefited from the government support when setting up their businesses and found it useful. However, 20 percent of them said that they could have set up their businesses even without the government support. 80 percent of the respondents pointed out the lack of capital and financial support needed to set up their businesses. They said that the loans were too expensive to pay back and that grants rather than loans should be made available. In general (84 percent), they do not feel especially disadvantaged in comparison to the male entrepreneurs, however, some of the respondents (30 percent) stated that they believed that men are better at establishing business ties and that they were actually helped by their male peers

(owners of other businesses and sometimes their husbands) to establish business ties and participate in fairs, etc. Overall, they say that their lives have changed for the better after they started their businesses (100 percent).

## 5. CONCLUSION

At the beginning of our study, we put forth the following hypotheses:

H1: In transition countries, policy measures for entrepreneurship as a tool for regional development focus on “Opportunity Factors” for latent entrepreneurs.

H2: Public spending on women entrepreneurship policy measures will eventually have a positive impact on economic and social development at the regional level (through creating employment, increasing family income, generating income for the regional economy from outside the region, betterment of women’s lives).

In order to test the first hypothesis, we conducted a content analysis of the public policy documents in Azerbaijan in terms of regional development strategies in order to see how the policies for entrepreneurship in general and women entrepreneurship in particular are placed within these documents and to see what measures are to be implemented to achieve the goals set within the policies. Then we used a framework, the so-called "MOS Model" developed by Stevenson and Lundström (2003) to assess in what way the behaviour of individuals were tried to be influenced by these policy measures to encourage and develop entrepreneurship.

Content analysis of the State Program on Social-Economic Development of Regions (2004-2008), State Program on Social-Economic Development of Regions (2009-2013) and State Program on Social-Economic Development of Regions (2014-2018) showed that, within the scope of the first program covering the period 2004-2008, emphasis was put on the need to develop entrepreneurship, especially in relation to its central role in job creation. Within the second programme covering the period 2009-2013, there is an acknowledgement of the importance of entrepreneurship policies and stronger emphasis is made on entrepreneurship in relation to the need for diversifying the country's economy. In the third programme for the period 2014-2018, entrepreneurship is linked to the production of high quality, export-oriented and competitive products. In the main texts of the three documents, there is no direct

reference to women entrepreneurship. Only in the Action Plan of the third programme, support is pledged for involvement in entrepreneurship of vulnerable groups of population, including youth, woman, IDPs and disabled.

In the second part of our analysis for Hypothesis 1, representation of MOS Model for Azerbaijan showed that the focus of entrepreneurship policies in Azerbaijan shifted from Opportunity Factors in the period 2004-2008 to Skills factors in 2009-2013. When the model is applied to non-transition economies, as analysed in Lundström (2003), Skills Factors are the dominating the policy measures area.

Improving the legal infrastructure for the business environment is -not surprisingly- a priority for any transition economy, and Azerbaijan's achievements in this realm are noteworthy. Azerbaijan was declared as the Leading Reformist Country in the sphere of improvement of business climate according to the “Doing Business” report of 2008 prepared by the World Bank and International Finance Corporation that covers evaluation of favourableness of business climate (World Bank, 2007).

As for the women entrepreneurs, the MOS Model tells us that Motivation seems to be the priority in the policy measures to promote women entrepreneurship in Azerbaijan. This indicates that, the Opportunity area is covered by the measures aimed at the general entrepreneurship promotion in the country. The fact that Motivation is a priority area for women is consistent with the impact of social norms that shape women's attitudes towards entrepreneurship, especially in transition countries. First of all, they impact the general societal support for women as entrepreneurs, which can affect an individual woman's decision to take the risk to become an entrepreneur (GEDI, 2013). As Kuriakose (2013) puts it, the recent European Bank for Reconstruction and Development's (2011) Life in Transition Report suggests that despite the fact that women in transition economies have similar levels of education, training, and skills as men, they are less likely to become entrepreneurs, with one of the reasons cited being the fact that women are more risk-averse.

Therefore, in the case of Azerbaijan, the first hypothesis (H1: In transition countries, policy measures for entrepreneurship as a tool for regional development focus on “Opportunity Factors” for latent entrepreneurs) is accepted for entrepreneurship in



general, but rejected for women entrepreneurship, as women entrepreneurs seem to need Motivation as much as Opportunity.

The second hypothesis (H2: Public spending on women entrepreneurship policy measures will eventually have a positive impact on economic and social development at the regional level (through creating employment, increasing family income, generating income for the regional economy from outside the region, betterment of women's lives) was firstly tested with an experimental formulation developed to see the how the government policies and measures on women entrepreneurship affects employment creation. For this part of our analysis, regional level data was not available, therefore we used the spending and employment data for the economic regions as a whole, rather than individual regions.

According to our formulation, the amount of public spending on measures to promote women entrepreneurship will affect the number of employment created by women entrepreneurship through a set of other factors. Therefore, the fact that the increase (and decrease) in the public spending does not have a full effect on employment may be due to the propensity to hire employees is actually smaller than 1, or that the survival rate of the businesses are too small.

On the other hand, in such cases we may need to question our assumption we made at the beginning that the government would run these programs only if the cost that the government bears to run these programs is less than the cost of supporting unemployed women. Moreover, the efficiency of the programmes are also important. These two may not be the case in all countries and in all settings.

In Azerbaijan there is no unemployment benefits for those who have not contributed to the social security system before, and the government is not expecting tax revenue from the entrepreneurs who benefit from these programs for the first few years<sup>35</sup>. Then in view of our formulation, the assumption that the government would run these programs only if the cost that the government bears to run these programs (alleviated by the tax revenue from these businesses) is less than the cost of supporting unemployed women does not necessarily hold. Instead our assumption turns into "government will run these programs as long as women entrepreneurship

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<sup>35</sup>Interview with Mr. Zaur Nuruyev, Head of Department at Ministry of Economy and Industry of the Republic of Azerbaijan

creates employment". Therefore, in the case of Azerbaijan, we can say that government spending on programmes supporting women entrepreneurship will create employment as long as there is such spending.

This finding is consistent with the Azerbaijan government's approach towards development in the regions, and the women in the regions. The way that the Government sees is that potential and current women entrepreneurs should not be left outside the development process of the country when creating entrepreneurship and small business is an efficient way of reducing unemployment, especially in the regions (Ministry of Economy and Industry, 2013).

Therefore, the first part of our analysis to test our second hypothesis is accepted in Azerbaijan's case when we take the economic regions (the subject of regional development strategy in Azerbaijan) as a whole.

In order to test the second hypothesis at the regional level, the socio-economic impact of women entrepreneurs who benefited from government programmes in a region and their perception of the government policies and measures is sought through a survey conducted among a sample group of women entrepreneurs in Ganja-Qazax, one of the economic regions of the country.

All of the respondents benefited from the government support when setting up their businesses and found it useful. However, 20 percent of them said that they could have set up their businesses even without the government support.

80 percent of the respondents pointed out the lack of capital and financial support needed to set up their businesses. They said that the loans were too expensive to pay back and that grants rather than loans should be made available. In general (84 percent), they do not feel especially disadvantaged in comparison to the male entrepreneurs, however, some of the respondents (30 percent) stated that they believed that men are better at establishing business ties and that they were actually helped by their male peers (owners of other businesses and sometimes their husbands) to establish business ties and participate in fairs, etc.

These results actually indicate that the women in this region are not strictly necessity driven, i.e. they do not feel that entrepreneurship is the last resort to make a living for their family. This interpretation is consistent with their motivations to become entrepreneurs, a question in the survey, to which they answered that they wanted to

make money, however earning a living for their family was not their priority. They also did not want to work for others and wanted control over and freedom to make their own decisions. A typical trait of an opportunity driven entrepreneur, 40 percent of them said that they had confidence in the products and services they offered, including those who turned their hobbies into their businesses.

This finding is also consistent with the outcome of the "MOS Model" for women entrepreneurs where we found out that the policies are focused on Motivation Factors on top of the Opportunity Factors that applied to the general audience of latent entrepreneurs in the country. This is further confirmed by the answer to the question in the survey about any obstacles women faced when setting up or running their businesses, where they said that raising capital was the primary obstacle they faced. Furthermore, when we look at their motivations to start up a business, we see that making money emerges as a generic motivation, but lack of motivation for consolidating social status or obtaining self achievement indicates that they do not see entrepreneurship as a means of improving their status in the society or fulfilling their personal potential.

The women in this region are partly opportunity-driven which in no way undermines their positive impact on the economic and social development of their region. According to the survey results, the median respondent's enterprise would provide jobs for 10-14 employees including herself, on average they spend 41 % of their income on their families, and they have business ties with outside their city and even the country, generating additional income for their locality and contributing to the export revenues of Azerbaijan. These indicate that they create additional economic value in the region, thus contributing to the economic development of the region.

The respondents are highly educated which means that their increased involvement in the society through entrepreneurship is a positive contribution to the social development of the region. This is further confirmed by their statement that their lives have changed for the better since they initiated their entrepreneurial activities.

Therefore, we can consider that the second hypothesis is accepted at the regional level in Ganja-Qazax region.

Taking into consideration the results of our analysis, we can conclude that the governments in transition economies find themselves in a specific position where

they have to adapt to the market economy on the one hand, and on the other keep up with the rest of the world in further adapting to the dynamic created by the forces of globalisation.

For those with rich resources, it is even more complex, because then they need to add to the mix the need to make sure that the economic activities are diversified enough to avoid adverse affects of volatility in international energy markets while ensuring that income is fairly distributed and that the private sector is strong enough and that unemployment is not an issue.

An effective way for job creation is through encouraging entrepreneurship especially in remote areas where chances of employment through other means is limited due to the lack of infrastructure and investment. This becomes more important in transition context where Foreign Direct Investment (FDI) is limited. Especially in the case of Azerbaijan, there has been a strong flow of FDI, but it was mainly in the energy sector which is again limited to in and around the capital Baku.

Therefore, encouraging entrepreneurship seems to be the effective way of creating employment in the regional context which is done through mobilizing the local resources of the regions. These resources include the human capital accumulated by the women in the regions as they are highly educated, which is the case in general in transition countries, and proved to be so in Azerbaijan as well.

Government policies to mobilise these resources should be targeted based on a good understanding of the needs of the regions. This means that not "any money" invested in entrepreneurship policies will create employment at the same rate. However, no matter how much money is spent, it pays back to follow these policies, either directly in taxes and savings on unemployment benefits, or indirectly through poverty alleviation, wealth creation and social development in the regions they are implemented.

In addition to the above analyses and results, this thesis also wishes to inspire hybrid methodology by employing an exploratory method of testing the hypotheses using more than one method of analyses as explained above.

Moreover, another exploratory element, "the formulation", devised in this thesis can be interpreted in different ways. In our thesis, we used it to show that employment creation is linked to government spending on women entrepreneurship policy

measures through a set of other variables. However, it can also be used to reflect on the questions such as, “how much should the government spend on policy measures aimed at supporting women entrepreneurship?”, “how long should governments consider waiting to compensate a certain amount of spending on these measures?”, etc.

This study focused on government policies, official formal institutions and informal institutions which refer to social and cultural norms and values. Further research could be done on where the institutions such as NGOs are positioned in the complex network of institutions for supporting women’s entrepreneurial ambitions.



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## **APPENDICES**

**APPENDIX A:** Survey questionnaire

**APPENDIX B:** Tables

## **APPENDIX A**

Name (optional):

Telephone number (optional):

City:

Age:

**1-Which sector are you operating in?**

**2- How many people are employed by your business, including yourself?**

**3-What is your educational background?**

a) Primary    b) Secondary    c) High school    d) Undergraduate    e) Graduate

**4- What is your marital status?**

a) Single    b) Married    c) Divorced

**5- Number of children (if any) ...**

**6- Who takes care of children?**

**7- What was your motivation to set up your own business?**

(you can choose more than one)

- a) profit/making money
- b) earn a living for my family
- c) did not want to work for others
- d) want for control and freedom to make my own decisions
- e) social status
- f) self achievement
- g) confidence in the products / services offered
- h) other : .....

**8-What obstacles did you face when starting a business?**

(you can choose more than one)

- a) no obstacles
- b) question of self confidence
- c) financial questions (raising capital)
- d) lack of information / advice on how to start an enterprise
- e) finding the right contacts for your business venture
- f) combining family and work life
- h) others : .....

**9-What was your initial capital? .....**

**10- What is your monthly income? .....**

**11- How many people do you need to financially support?.....**

**15- In your opinion, what share of your income do you spend on your family?  
..... %**

**16- Do you have customers in other cities?                      a) Yes                      b) No**

**17- Do you have customers abroad?                                a) Yes                      b) No**

**18- Have you benefited from government support when you were setting up your business?**

**a) Yes                      b) No**

**20- Do you believe that government support was useful?**

**a) Yes                      b) No**

**21- Could you have set up your business without government support?**

**a) Yes                      b) No**

**22- Do you think that government should do more to support women entrepreneurship? If yes, what? ....**

**23- Do you feel disadvantaged in comparison to the male entrepreneurs?**

**a) Yes                      b) No**

**24- How has your life changed since you started your business?**

## APPENDIX B

**Table B.1:** Classification of entrepreneurship policies, 2004-2008

| Policy area  | Policy measure  | Women / regional dimension  | M/O/S |
|--|---|---|-------|
| entrepreneurship promotion   | Regular business forums   | Business forums aimed at supporting efficient use of natural and labour resources of regions  | M/S   |
| entrepreneurship education   |   |   |       |
| reducing administrative, legislative and regulatory barriers to entry and exit | <p>Tax rates (on revenue and income) decreased</p> <p>Social security contributions decreased</p> <p>Total number of (types of) taxes brought down</p> <p>Agricultural producers were exempted from all taxes, except for land tax</p> <p>Number of businesses subject to licensing were significantly decreased and period of licenses prolonged</p> <p>Export duties were lifted and 15% of maximum level was set for import duties</p> <p>“single window” principle” was approved to accelerate development of business activities</p> |   | O     |
| business support for start-ups   | 567 branches and 99 bank departments became operational in different regions of the country   | <p>Bank branches and departments opened in regions of the country.</p> <p>Regions account for 47% of bank branches and 57% of bank departments.</p> | O     |
| start-up and seed financing  | AZN 323.4 million worth loans were allocated to 6991 business entities through funds of the National Fund for entrepreneurship Support  |   | O / S |
| target group measures  |   |   |       |

**Table B.2:** Classification of entrepreneurship policies, 2009-2013

| Policy area                 | Policy measure  | Women / regional dimension  | M/O/S |
|-----------------------------|---|---|-------|
| entrepreneurship promotion  | Business forums organised   | Business forums organised regularly in the regions have had positive effect both on organization of awareness activities among local and foreign businessmen and entrepreneurs, improvement of their access to information, on the process of efficient use of natural and labour resources available in the regions of the country and attraction of foreign investment.                       | M / S |
| entrepreneurship education  | Easy access to information enabled  | Electronic Information Portal on Permissions has been developed to provide comprehensive information in this area and to enable the individuals, wishing to start entrepreneurship activity and expand their activities, to obtain from the single source all information on required permissions, their issuance procedures, documents to be submitted, dates of issue and validity of permits | O / S |
| start-up and seed financing | financial support for the entrepreneurship development has been further improved, the amount of soft credits increased considerably. With the aim to support entrepreneurship and increase state care of this area, 1.2 bln manats of soft loans were given to 19.1 thousand of businesses by the State Fund for Entrepreneurship Support | Implicit  | O     |





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